

OVERSEAS NEWS

Iranian missile hits school killing 32

By Andrew Gowers in London and Lionel Barber in Washington

IRAN LAUNCHED a fresh missile attack against Baghdad yesterday, and Iraq claimed a primary school was hit with the deaths of 29 children and three adults.

The attack, for which Iraq swiftly vowed retaliation, marked the latest step in the "war of the cities" between the two countries which resumed in earnest last week. It represented a sharp reminder of Iran's determination to carry on with the war against a background of mounting Iraqi confidence.

Iranian officials, in a newspaper interview, said the threat of an Iranian victory or of a wider Gulf war may be passing.

"It is Iraq's right and its duty to reply to this heinous crime," said the Iraqi news agency after the missile attack. "They want a war of the cities and they will get it. Missiles will make them understand."

In another development late on Monday, at least one Iranian gunboat machine-gunned a Saudi Arabian tanker, the 39,115-tonne Petrosip B, off the coast of Dubai. Damage was slight, no casualties were reported, and the tanker later continued its voyage out of the Gulf.

The incident was the first reported Iranian attack on shipping in several days, following a punishing series of Iraqi air raids on Iran's oil export operations.

Meanwhile, the US military command in the Gulf is pressing Washington for greater latitude in striking against Iranian gunboats attacking merchant shipping in the waterway, the Washington Post reported yesterday.

US forces want approval to attack any Iranian gunboat firing on merchant vessels which then call for assistance. This would broaden the US naval role which is to protect US-flag ships only in the area.

Kuwaiti oil tankers. However, the Reagan administration has also made clear the task force's aim is to maintain free navigation in the international waters of the Gulf.

Lebanese pound falls sharply

THE LEBANESE pound fell sharply against the dollar yesterday, forcing banks to halt trading to try to stem the collapse, Reuters reports from Beirut.

"It was complete chaos in the market," said one banker. "Speculators were buying huge amounts of dollars, the banks were losing control and they stopped trading to catch their breath."

The pound closed at 355.50 to the dollar compared with Monday's close at 346.00, the Central Bank said.

The once-stable pound has lost more than 70 per cent of its international value and around the year. The collapse has fuelled inflation estimated at 300 per cent.

Bankers said the pound's latest fall was prompted by fears the renewed fighting between Palestinians and Shia Muslim gunmen in south Lebanon might spread to the capital.

Saudis discuss purchase of oil refinery stakes

BY RICHARD JOHNS IN LONDON

SAUDI ARABIA has held talks with three leading US oil companies - Exxon, Texaco and Mobil - on the purchase of substantial minority stakes in their oil refining and marketing operations in Western Europe.

The deals, as reported in late editions of the Financial Times yesterday, could be worth billions of dollars and would give Saudi Arabia secure outlets for its crude oil and refined products at a time of slack demand and amid fierce competition for market shares among members of the Organisation of Petroleum Exporting Countries (Opec).

Exxon and Texaco spokesmen in New York yesterday declined to confirm or deny that negotiations had taken place. "We don't comment on rumours of acquisitions and divestments," an Exxon spokesman said.

Exxon's assets are understood to have been the main Saudi target and talks with the company appear to have progressed far further than those with Texaco and Mobil.

Under the Saudi plan Petrotrin, the state oil corporation would be given an enhanced status as a hold-

ing company. It would probably be renamed the Saudi National Oil Corporation and be given a role similar to that of the Kuwait Petroleum Corporation, with responsibility for overseas marketing.

The prospect of deals with the US groups was formally raised early in August by Mr Hisham Nazer, the Saudi Minister of Oil, at a meeting in Los Angeles of the executive board of the Arabian American Oil Company, on which the three companies and Chevron are represented.

Saudi Arabia's ruling hierarchy and senior oil industry officials are known to have come round to the view that the kingdom needs to buy secure outlets for its crude oil and refined products as Kuwait and Venezuela have done.

Kuwait has obtained a substantial foothold in western Europe mainly through purchasing assets from Gulf Oil before it was taken over by Chevron.

Venezuela has overseas joint ventures through which well over 25 per cent of its crude oil and refined products are sold.

King Fahd of Saudi Arabia, how-

ever, is believed to be hesitant about the kingdom entering "downstream" operations with the US groups, and has possibly held up a deal with Exxon.

Following Exxon's exchanges with Mr Nazer, relations also became strained because of the US company's low level of orders from the kingdom. Exxon has since raised the orders and is thought to have taken about 300,000 barrels a day in the first week of this month.

The four US majors, which are partners with Aramco and have a critical role in servicing its operations through a joint company, lifted about 1.4m b/d out of a total of 4.5m b/d, of which 300,000 b/d would have been accounted for by domestic consumption.

At the August meeting of the Aramco executive board, the US companies are understood to have suggested that they should be given a price rebate in return for maintaining holdings of Saudi crude at the levels sought by the official Ministry of Oil. However, it is understood that the proposal was rejected by King Fahd, who is committed to maintaining Opec prices at about \$18 a barrel.

Israel praises Riyadh aid effort

MR YITZHAK RABIN, the Israeli Defence Minister, praised Saudi Arabia yesterday for its aid to Arab areas under Israeli occupation but said Western Europe paid only "lip service" to the Palestinian cause.

Mr Rabin said Saudi Arabia, though officially at war with Israel, recently gave \$1m to a United Nations Development Programme sewage project in the sprawling Jabal-Ya refugee camp in the Gaza Strip, captured from Egypt in 1967.

"We more than welcome the Saudi help and would welcome even more if Saudi Arabia provided \$15m for economic aid to the West Bank and Gaza Strip," he told Palestinian mayors.

"But I told the (Western) Europeans that all they do is provide lip service to the Palestinian cause. If they want to see schools built and investments made, they should do it, not just talk about it."

"We offered each West European country the possibility of adopting two refugee camps each in the West Bank and Gaza Strip and helping them through the United Nations."

Harare bomb blast leaves 18 injured

BY TONY HAWKINS IN HARARE

TWO PEOPLE were seriously injured and another five kept in hospital for treatment following a car bomb blast in the Avondale suburb of Harare early yesterday.

By late afternoon no one had claimed responsibility for the bomb attack.

A total of 18 people were injured, most suffering minor cuts from flying glass. The bomb exploded at 8.30 in one of Harare's busiest suburban shopping centres.

Witnesses said the casualty toll could have been higher had it exploded later in the day, when the centre is usually full of shoppers.

Zimbabwe has blamed South Africa for the bomb blast, Reuters reports from Harare.

The bomb blast is part of the persistent efforts of the Pretoria regime to destabilise Zimbabwe, Information Minister Mr Nathan Shamuyarira told the domestic news agency Zina.

Mr Shamuyarira alleged South African involvement nine hours after the car bomb exploded.

He referred to a protest note sent by South Africa last week following a landmine blast in the Transvaal which Pretoria blamed on anti-government guerrillas infiltrated from Zimbabwe.

"It is a tactic South Africa uses whenever they want to attack us," he said. "There is absolutely no evidence of infiltration by ANC guerrillas through Zimbabwe."

The ANC is the main guerrilla group fighting for majority rule in South Africa.

Mr Shamuyarira said South Africa had recently increased support for insurgents in Mozambique whom he said had attacked targets in Zimbabwe.

Acting Foreign Minister Mr Richard Hove said the bombing underlined the case for comprehensive sanctions against Pretoria.

He said the "cowardly and unprovoked attack" on the day a summit of Commonwealth leaders opened in Vancouver "shows the racist apartheid regime's immoral and continued disregard for international opinion."

The explosion destroyed five cars, shattered shopfronts and sent early-morning shoppers fleeing in terror from flames and clouds of smoke.

The blast made a crater one metre across. Most of the injured were burned or hit by flying metal.

The bomb was the biggest in Harare since independence in 1980.

Philippine strikers stage march

ABOUT 6,000 workers taking part in a week-long strike for higher wages defied police warnings and marched toward the presidential palace last night, AP reports from Manila.

The protesters, mostly members of the militant May 1 Movement, chanted "strike, strike" and pro-Communist slogans on their way to a tightly-guarded bridge near the palace after a rally at a downtown Manila square.

Police warned rally organisers against going on to the Mendiola Bridge, 300 yards from the palace, for fear that right-wing or leftist extremists might try to use the occasion to create trouble.

But the protesters ignored the warnings and, as darkness fell, lit torches and began the march, chanting "Up with wages, down with prices" and "NPA growing stronger". They were referring to the New People's Army, military arm of the outlawed Communist Party of the Philippines.

Earlier yesterday, President Corason Aquino issued a statement praising union leaders for keeping the strike peaceful.

Mali yellow fever outbreak

A YELLOW fever outbreak in Mali has claimed 58 lives, all but one of them children under the age of 12, according to the United Nations Children's Fund (UNICEF), AP reports from Abidjan.

Health officials in the capital Bamako have appealed for 4.4m doses of vaccine to fight the spread of the disease.

UNICEF has provided 300,000 doses so far. Assistance has also come from France, West Germany, Switzerland and the international aid group Medecins Sans Frontieres.

S African airline plans to beat Australian curbs

BY CHRIS SHERWELL IN SYDNEY

SOUTH AFRICAN AIRWAYS, which will be subject to Australian sanctions later this month, aims to beat the embargo on landing rights by routing its passenger flights through Singapore, Hong Kong and Taipei.

Mr Gert van der Veur, the airline's chief executive, took out full-page advertisements in local newspapers yesterday to announce that other carriers would co-operate in providing alternative routes.

The airlines are presumed to be Cathay Pacific, Singapore Airlines and Air Mauritius. Passengers from Australia would fly to Hong Kong or Taipei to connect with existing SAA services, or to Singapore to make connections with Mauritius, where SAA also flies.

The Canberra Government last October gave the required one year's notice terminating the South African landing rights agreement as part of the international sanctions effort against Pretoria's apartheid government.

SAA's weekly flight from Sydney via Perth departs for Johannesburg every Tuesday, having left South Africa the previous day. The last flight leaves Sydney on October 27 and is fully booked.

Mr van der Veur, who was in Sydney yesterday, acknowledged that sanctions against South Africa were hitting the economy but said they were hurting blacks more than whites. SAA, for example, had not taken on black workers since becoming an equal opportunity employer two years ago, he said. Currently it employs 1,400 blacks.

In his newspaper advertisement he said it was "a pity" that SAA could no longer offer passengers the shortest and most direct route between the two southern hemisphere nations. But passengers would now get "four countries for the price of one" and a wider choice of services.

For his part Mr Gallagher said he thought the action was linked with elections under way in the Building Workers Industrial Union.

The BLF was "deregistered" by the authorities in May last year after protracted wrangles over its muscular tactics in industrial disputes and its apparent unwillingness to accept wages guidelines.

The rival BWIU, which is also strongly left-leaning, has since picked up some 20,000 BLF members and become one of the country's ten largest unions.

Taiwan ready to allow visits to China

BY BOB KING IN TAIPEI

MR YU KUN-HWA, Taiwan's Prime Minister, has confirmed in talks with foreign journalists that his Government will soon permit humanitarian visits by residents of Taiwan to mainland China.

Mr Yu's comments were the first confirmation by a senior official of the ruling Nationalist Government that the authorities are prepared to permit the visits. He did not, however, say when the liberalisations would be announced,

nor did he specify who would, and who would not, be allowed to visit China.

Mr Yu said that the Government's primary goal in allowing the visits is humanitarian: uniting relatives who have not seen each other during the 40 years that Taiwan and China have remained technically at war. But he added that through the new arrangement, Taiwan also expects to gain long-term political benefits, by acquaint-

ing compatriots on the mainland with the alternatives - and the wealth and relative freedom - enjoyed on Taiwan.

His remarks seem to indicate that more progressive members of the Nationalist Party, who insist that the advantages of allowing visits far outweigh the national security concerns touted by opponents, have again won the day. Mr Yu stressed, however, that the visits have nothing to do with the official policy of "no con-

tacts, no compromise, and no negotiations" with the Peking regime, and thus do not signal a shift toward accommodation with the Communists.

An announcement about details of the visits - who will be allowed to go, and under what conditions - could be made as early as Wednesday morning, when the Nationalist Party's powerful central standing committee convenes its weekly meeting.

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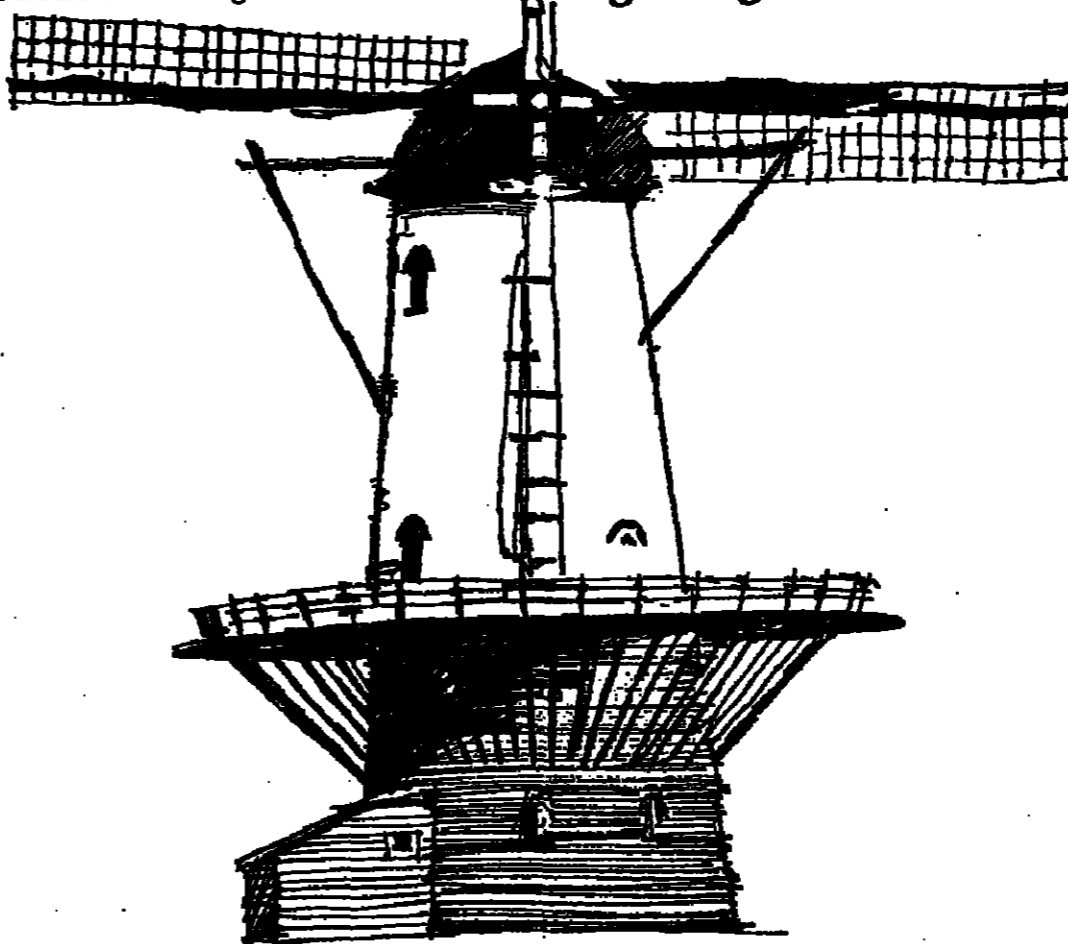
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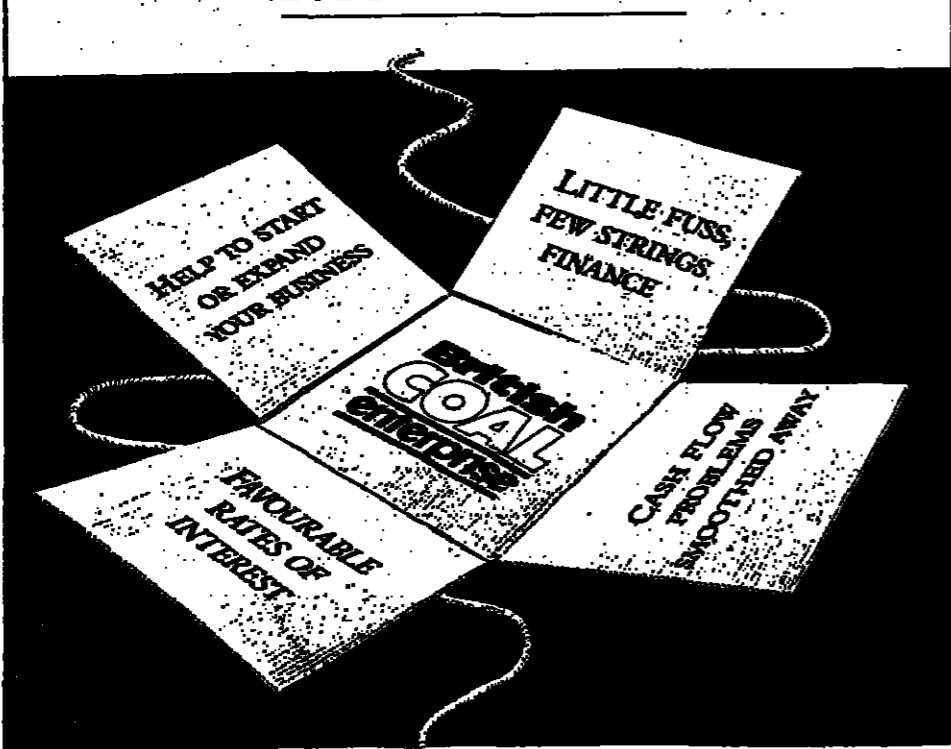
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UK NEWS

Former Guinness chief complains of vendetta

BY NICK BUNKER

IN A colourless, impersonal rented room overlooking a rain-soaked street in central London, Mr Ernest Saunders, the former Guinness chairman, held what he called "a family tea-party" yesterday afternoon.

For more than 50 minutes Mr Saunders, dressed in his past, painted a bleak picture of his financial future and hinted darkly at conspiracies in high places against him.

There were "big and powerful forces" ranged against him, he said, and an apparent determination to make him "the overall scapegoat". He spoke of "DTI (Department of Trade and Industry) inquisitions", and "DTI squads" who questioned him.

Flanked by his son, a 21-year-old law student, Mr Saunders also said: "We shall tell you what it is like to have a family that has been ripped apart."

Though he was speaking to what he called "his friends in the press," he nevertheless con-

demned "a plethora of horrible stuff" that had been printed in the media.

These had contributed to his wife's first nervous breakdown, while his arrest on criminal charges in May had precipitated the second, he said.

Three threads ran through his remarks at the press conference. It had been hastily organised without the presence of lawyers in the Waldorf Hotel by family friends and by his son and daughter Jo within 90 minutes of leaving a magistrates' court yesterday afternoon.

First, he was a man more sinned against than sinning, who had always placed shareholders' interests first, but was now the victim of "an orchestrated vendetta" by former friends and colleagues. "I have nothing to hide," he said.

Since he had to sell his family home earlier this year, he had been living on £500 a week and had had to discover London buses and Underground trains,

he said. "There is not a day when I am not approached in the Underground by people who are smallish Guinness shareholders who come up to me to offer their support," he claimed.

Second, he was close to ruin - paying out of his weekly £800 school fees for his younger son, his wife's medical bills in Switzerland, where he is to join her tomorrow for a week, and his steeply rising legal bills.

He was never a wealthy man, he claimed. "The portrayal of me in the role of a world tycoon with yachts all over the place is just crazy." He said he foresaw that the cost of defending himself would leave him "a millionaire in debt terms."

The third refrain was the suffering of his family - especially his wife who, he said, was seriously unwell and living in a rented studio flat in "an unfashionable Swiss village where I used to go skiing in happier days."

Shift on industrial policy puts stress on wealth creation

BY KEVIN BROWN

A MARKED shift in the policy objectives of the Government's trade and industry department was announced yesterday.

Lord Young, Trade and Industry Secretary, said yesterday that there was to be a comprehensive review of the department's role.

He said the objectives were intended to complete the move away from industrial interventionism begun in 1979 by Sir Keith Joseph, Mrs Margaret Thatcher's first Industry Secretary.

Lord Young said the department had coped with the problems of failure in many sectors of industry and was now faced with the problems of success.

"What we have today is a different world. We don't have to the same degree the same ducks that have to be kept going, or the strategic decisions that have to be made," he said.

Lord Young also said the objectives were intended to complete the integration of trade and industry matters within a single department. They make no mention of trade policy, however.

The objectives replace detailed guidelines drawn up by Mr Norman Tebbit, now chairman of the Conservative Party, which emphasised international competitiveness, innovation, and the creation of a sympathetic fiscal climate.

Under Lord Young, the emphasis will switch to wealth creation, reduction of bureaucracy, and working to promote best

practice and a climate of enterprise.

The four key objectives are:

● To produce a more competitive market by encouraging competition and tackling restrictive practices, cartels and monopolies;

● To secure a more efficient market by improving the provision of information to businesses about new methods and opportunities;

● To create a larger market by privatisation and deregulation;

● To increase confidence in the working of markets by achieving a fair level of protection for consumers and investors.

Lord Young said he wanted the DTI to be a "department for enterprise," which would help lay the foundations of a more productive and prosperous society.

The review is thought unlikely to produce a major shift in areas such as competition policy and subsidies to loss-making industries such as shipbuilding.

But there is likely to be a shift away from providing research and development grants to big companies.

The review will also consider the future of relocation grants to industry, which Lord Young is believed to regard with some scepticism.

The new approach is likely to concentrate on ensuring that advice is available to industry, and encouraging companies to collaborate where this would be mutually beneficial.

Post Office plans fast delivery to Europe

Financial Times Reporter

THE Post Office is planning to introduce a scheduled same-day delivery service to Europe which is aimed at the growing business market for express mail delivery services.

International Datapost, the Post Office's courier and express services division, is expected to announce the start of the new delivery service later this week.

Initially, the service will be limited to collection of post in central London - before 10.30am - and delivery in Paris, Amsterdam and Dublin between Monday and Friday.

It is envisaged that further collection and delivery areas may be added later, however.

The service will be marketed by the Post Office as the first scheduled same-day service to Europe.

It is aimed partly at regular consignments of urgent documents and packages. Similar delivery services to many European cities are already offered on an ad hoc basis by private companies such as DHL, the worldwide couriers.

The announcement of the scheduled service is the latest shot in an increasingly competitive battle between the Post Office and the private sector for dominance in the express mail market.

The heads of 12 national post office organisations, including the UK, recently agreed to set up a joint company to handle the sorting and despatch of their share of the market.

Safety inspectors put brake on construction boom

BY DAVID BRINDLE, LABOUR CORRESPONDENT

FACTORY INSPECTORS are ordering a total or part stoppage of work on one in five London building sites in a crackdown on safety standards.

The crackdown on London's booming construction sector is described by the Factory Inspectorate as a "blitz". It follows the deaths of three workers on building sites last week. The national average of fatalities in the industry is normally two a week.

On Monday, the first day of the blitz, inspectors making unannounced visits to about 100 building sites issued prohibition notices in 19 cases, ordering at least some work to stop until safety precautions are improved.

The pattern was repeated yesterday and the crackdown is expected to continue for about a month.

The construction industry has a notoriously poor safety record. In 1985-86, it reported 109 fatal and 2,234 "major" employee accidents - an incidence rate of 2,385 per 100,000 employees compared to 85.8 per 100,000 for manufacturing industry.

The Factory Inspectorate says the picture is worsening as a result of the increasing fragmentation of the industry through sub-contracting, self-employment and the growth of small companies.

Mr David Eves, chief inspector of factories, said yesterday: "Complacency, lack of concern, ignorance and often sheer bloody-mindedness are pre-

venting improvements in the construction industry. My inspectors are not by nature cynical, but they are forced to the conclusion that a substantial number of smaller firms in the industry have little regard for their workforce as human beings."

Mr Eves disclosed that the provisional statistics for the industry for 1986-87 showed 123 fatal accidents to employees and others and 3,601 major injuries, although the reporting system has changed since 1985-86.

The crackdown in London follows similar initiatives in other parts of the country. The inspectorate has in the past been reluctant to issue prohibition notices, but Mr Eves warned yesterday that "the gloves are off".

Most of the prohibition notices are being issued for relatively basic failings such as unshored excavations, unguarded holes, missing guardrails and unsafe lifting gear. In each case, work can resume only on an inspector's authorisation.

The annual report of the Chief Inspector of Factories, published yesterday, shows that 52 per cent of construction accidents are falls, slips or trips and another 20 per cent are caused by falling objects.

The report criticises many construction companies for allowing an estimated 70 per cent of building employees to work without wearing safety helmets.

Report by HM Chief Inspector of Factories 1986-87; HMSO, £11.

Steel chairman for Eurotunnel

BY ANDREW TAYLOR

SIR Robert Scholey, chairman of British Steel, and Dr Tony Ridley, chairman and managing director of the London Underground, have joined the board of Eurotunnel, the Anglo-French Channel tunnel group, as non-executive directors.

Mr Pierre Durand-Rival, Eurotunnel's French managing di-

rector, has also been appointed to the board. Mr Durand-Rival who was responsible, among other projects, for the construction of the Solmer steelworks near Marseilles, took over from Mr Jean-Loup Dherse.

Mr Dherse who remains on the Eurotunnel board has gone to the Vatican where he has been appointed executive sec-

retary to the Synod of Bishops in Rome.

The appointment of three new directors, particularly such well known and influential figures from the heavy engineering and transport sectors, will strengthen Eurotunnel's board in the run-up to next year's £700m international share offer.

Union warns of job losses after electricity sell-off

BY CHARLES LEADBEATER, LABOUR STAFF

PRIVATISATION of the electricity supply industry could lead to between 70,000 and 200,000 job losses in the electricity, coal, rail and power engineering industries, according to a trade union research paper.

The paper, prepared by the National Union of Mine-workers, says the job losses would result from an increase in imported coal and a drive to raise productivity in the electricity supply industry closer to international levels.

The paper was presented at a series of fringe meetings at party political conferences this autumn organised by Friends of the Earth, the environmental pressure group.

It says that between 30m and 48.6m tonnes of UK coal production could be displaced by imported coal, with the loss of between 47,000 and 69,000 miners' jobs.

This would imply the closure of all deep mines in Scotland by the early 1990s, all the North-East's deep mines by the mid-1990s, all north Derbyshire and Kent mines by the late 1990s, as well as extensive cuts

in manpower in Nottinghamshire, Yorkshire and South Wales.

Hundreds of rail and seafaring jobs would also be lost if coastal power stations turned to imported coal. A privatised electricity industry might also turn to foreign suppliers for power station equipment, forcing rationalisation in the UK industry, including the possible closure of one big supplier with the loss of 15,000 jobs.

The paper predicts that between a half and a quarter of the 130,000 jobs in the electricity supply industry could be lost because private owners would press for improvements in productivity to bring the industry up to international standards.

An average British 2,000 megawatt coal-fired power station is staffed by 844 workers compared with 630 in West Germany, 580 in the Netherlands and 215 in Japan.

These direct jobs losses would be amplified by the possible loss of an additional 70,000-100,000 in companies which depend on the electricity industry.

Britain faces 'serious' computer staff shortage

BY JIMMY BURNS, LABOUR STAFF

BRITAIN is experiencing a serious shortage of skilled computer staff. If present trends continue, the UK's high technology industry could face a shortfall of 53,000 by 1991, a conference organised by the Confederation of British Industry has been told.

The increasing difficulties which UK companies are finding in the recruitment of computer staff is now widely accepted within industry. But the severity of the problem was underlined at the conference by Mr Rick Firth, group manager for education and training at the National Computing Centre.

"Many companies are now viewing with mounting concern that the lack of skilled staff has now replaced the lack of the right equipment as the main impediment to the development of information technology," Mr Firth said.

A survey conducted by the National Computing Centre among its 2,000 corporate members found that there was an estimated UK shortage of 18,000 in applications for development staff engaged in research and development, and a growing shortage of systems programmers and network staff.

This has happened despite strong five-year growth predict-

ed for most categories of information technology staff by a majority of the companies questioned.

Mr Firth blamed the shortfall on the continuing low level of attention companies were giving to training. Only one in three companies in the computer industry had recruited trainees over the past year, he said. "Everyone is chasing the same people in the market and too few new people are coming in."

The problem was illustrated by the recruitment of trainees in the computer industry registered under the Government's Youth Training Scheme. Numbers had fallen over the past year from 1,200 students to 200.

According to Mr Firth, companies were caught in a trap. They were having to pay out increasingly high salaries to retain staff in an industry characterised by a high level of labour mobility; they were exhausting resources which would otherwise have been used on training.

Annual turnover of certain categories of computer staff nationally was more than 20 per cent, with rapid turnover most marked in the London and the South East of England and in small companies.

Engineering employers to vote in secret ballot

BY CHARLES LEADBEATER, LABOUR STAFF

EMPLOYERS in the engineering industry are to vote in a secret ballot on whether to accept a draft agreement with the industry's trade unions to trade off cuts in working hours for the introduction of more flexible working practices.

The vote among the 5,000 members of the Engineering Employers Federation is the first full-scale secret ballot among employers on an industrial relations issue in recent years. While EEF companies have voted recently on the federation's constitution, its members last voted on an industrial relations issue, a wage settlement, more than 15 years ago.

The agreement proposes a phased cut in the working week of 600,000 manual workers in return for flexibility on the shopfloor and greater variability in weekly working hours.

While secret ballots have become a common feature of industrial relations in recent years as a result of Government changes to trade union law requiring unions to hold ballots before strikes action, the Electoral Reform Society said it was to hold ballots of their members over industrial relations issues.



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UK NEWS

Kevin Brown on the fortunes of an increasingly confident industry

Truck rental takes the high road

THE WAY Jim Cleary tells it, it is a wonder the trailer rental industry ever got off the ground in Europe at all.

Mr Cleary, chairman of TIP, Europe, runs the biggest operator in an increasingly competitive market and just 15 months ago led 22 colleagues in a £30m management buy-out from Gelco Corporation, the former US parent.

Earlier this week, he announced a 51 per cent increase in pre-tax profits - to £7.2m - in the first year of independent operation and confirmed proposals to float 25 per cent of the company on the London and Amsterdam stock exchanges.

The flotation should raise about £25m, which will all but wipe out the company's debt and allow it to continue a re-equipment programme which has cost £42m over the last three years.

The priority will be to continue introducing newer vehicles to TIP's fleet of 10,000 trailers, which, the company says, has improved markedly in spite of the effects of several years of half-hearted ownership by Gelco.

TIP says the average age of its premium trailers - three axle, refrigerated and curtain sides units - is now only 3½ years, which is an important selling point in the service-sensitive trailer market.

The proceeds of the flotation will enable TIP to speed acquisition of premium trailers, which have increased from 25 per cent of the company's fleet in 1982 to about 60 per cent. The proportion is expected to reach 70-75 per cent by 1990.

TIP's investment proposals reflect the industry's increasing confidence that steady growth can be sustained over the next 10 years in spite of forecasts that the total trailer fleet in Europe will remain more or less steady.

But the signs were not always

EUROPEAN TRAILER RENTAL FLEET*				
Company	Base country	Fleet size	Share of rental fleet (%)	
TIP	UK	10,000	23.6	
Tiphook	UK	7,500	17.7	
Rentco	UK	6,500	15.4	
Trailrent	UK	3,500	8.2	
TRICEM	Netherlands	1,500	3.5	
Trailor	France	1,200	2.8	
Others		12,000	28.4	
TOTAL		42,200	99.6**	

* EC and Scandinavia. † Including current expansion programme of 3,000 trailers. ** Does not total 100% due to rounding.

so encouraging, especially when the idea of renting trailers first arrived in Europe from the US in the late 1960s.

Jim Cleary says he went for an interview with TIP chairman Michael Morris at 11am one morning and left at 8pm with his first full day's work behind him.

The UK operation started with a notional 300 trailers for rent - most of which only arrived some months later - one member of staff, and no customers.

Mr Cleary drove 50,000 miles drumming up business in the first year and must be one of the few company chairmen who can genuinely claim to have run his sales department with a John Bull printing outfit.

He also had a hard time convincing transport companies that it made sense to rent trailers rather than buy them - the worst sneers came from former colleagues at Ferrymasters, the transport subsidiary of Peninsular and Oriental Steam Navigation, where he was formerly sales manager.

But the prospects for the industry have undergone something of a sea-change in the last few years, particularly in the UK, where the attraction of contract hire was significantly boosted by the abolition of 100 per cent first year capital allow-

ances in the 1984 Budget. This was followed by changes in accounting regulations which required finance leases to be capitalised in the accounts, making leasing less attractive to highly-gear companies.

Financial considerations aside, the success of the trailer rental market rests on the advantages of articulated vehicles over rigid lorries and the high capital costs this can impose on transport companies.

Articulated vehicles - consisting of a "tractor" unit (the driver's cab and engine) and a separate trailer - allow operators to maximise flexibility and load capacity by using a single tractor unit in combination with several trailers - which can be dropped off for loading or shipping or left standing idle in whatever sequence best suits the operator.

Rental also makes it easier for operators to cope with fluctuations in demand, offers the opportunity to swap one type of trailer for another and avoids maintenance costs (depending on the terms of the contract).

The equipment is expensive, however: tractor units cost up to £90,000 and trailers between £10,000 and about £35,000, so operators can avoid substantial capital outlays by renting rather than buying.

The number of trailers on Europe's roads is hard to estimate because there is no requirement for registration, as there is for tractor units and rigid vehicles. Rented trailers are thought to account for 10 to 12 per cent of the UK market and 5 to 10 per cent in the rest of Europe.

But the TIP share offer proposal is only one of a number of indications that the industry is poised to increase its share of the market in the UK.

The first signs were management buy-outs at Rentco International, bought for £43m from Fruehauf Corporation of the US, and at TIP, bought from Gelco for £30m.

These buy-outs were a signal that senior managers in the companies believed the industry had a bright future.

Further evidence of confidence came with a recent announcement by Tiphook, an aggressive provider of containers, rail wagons and trailers for rent, that it proposed to spend £50m this year on 3,000 trailers to add to its existing fleet of about 4,500.

Mr Robert Montague, chairman of Tiphook, says this investment is designed to make sure his company is well placed to exploit a "dramatic expansion" he foresees in the rental market throughout Europe.

This view is echoed by Mr Cleary, who says the number of rented trailers on European roads could grow to 20 per cent of the total market over the next 10 years.

Mr Clive Anderson, transport analyst at Kicat & Aikens, says the investment programmes announced by TIP and Tiphook reflect rental companies' increasing confidence.

Mr Anderson estimates likely growth at 7-8 per cent a year in the UK and 5-10 per cent in Europe, where the opportunities are greater but the existing penetration much smaller.

Scottish paper manufacturer invests £6.6m in plant

BY JAMES BUXTON, SCOTTISH CORRESPONDENT

TULLIS RUSSELL, the privately-owned Scottish paper maker, is investing £6.6m in a plant to make cast-coated paper and board at Glenrothes, Fife. It will become the only British-owned manufacturer of this type of quality product.

Mr David Erdal, the chairman, said yesterday demand was expanding for cast-coated paper and board products, used for the covers of documents, calendars, high quality printing and quality retail packaging. It was

the right time to enter the market.

The plant, using a process licensed from S.D. Warren of the US, will begin operating in 1989 employing about 50 and will be near the company's quality paper making plant which employs about 1,000. Subsidiaries of the company operating in other parts of the paper market employ 300.

The plant will produce 4,000 to 6,000 tonnes of cast-coated

paper a year. The only other manufacturer in Britain is Star, an offshoot of Kymmene-Stromberg of Finland.

Tullis Russell increased sales by 18 per cent to £70m in the year to March 31 and pre-tax profit rose 35 per cent to £8.2m. Mr Erdal said the company had benefited from the favourable trade cycle in paper making. Demand for most products is strong, raw material costs are running in line with paper prices and exchange rates are

favourable. He warned, however, that pulp prices had risen recently and exchange rates had moved adversely although the market remained strong.

Control of Tullis Russell is vested in a charitable trust. The group operates an employee profit sharing cash scheme as well as distributing shares to employees, who now own nearly 5 per cent of the company's share capital.

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Or telephone him on 01-248 4275.

Alternatively, after mid-November, when we open our new Birmingham office, get in touch with Michael Joseph, Executive Director, Lloyds Development Capital Limited, Embassy House, 60 Church Street, Birmingham B3 2DJ. Telephone: 021-200 1787.



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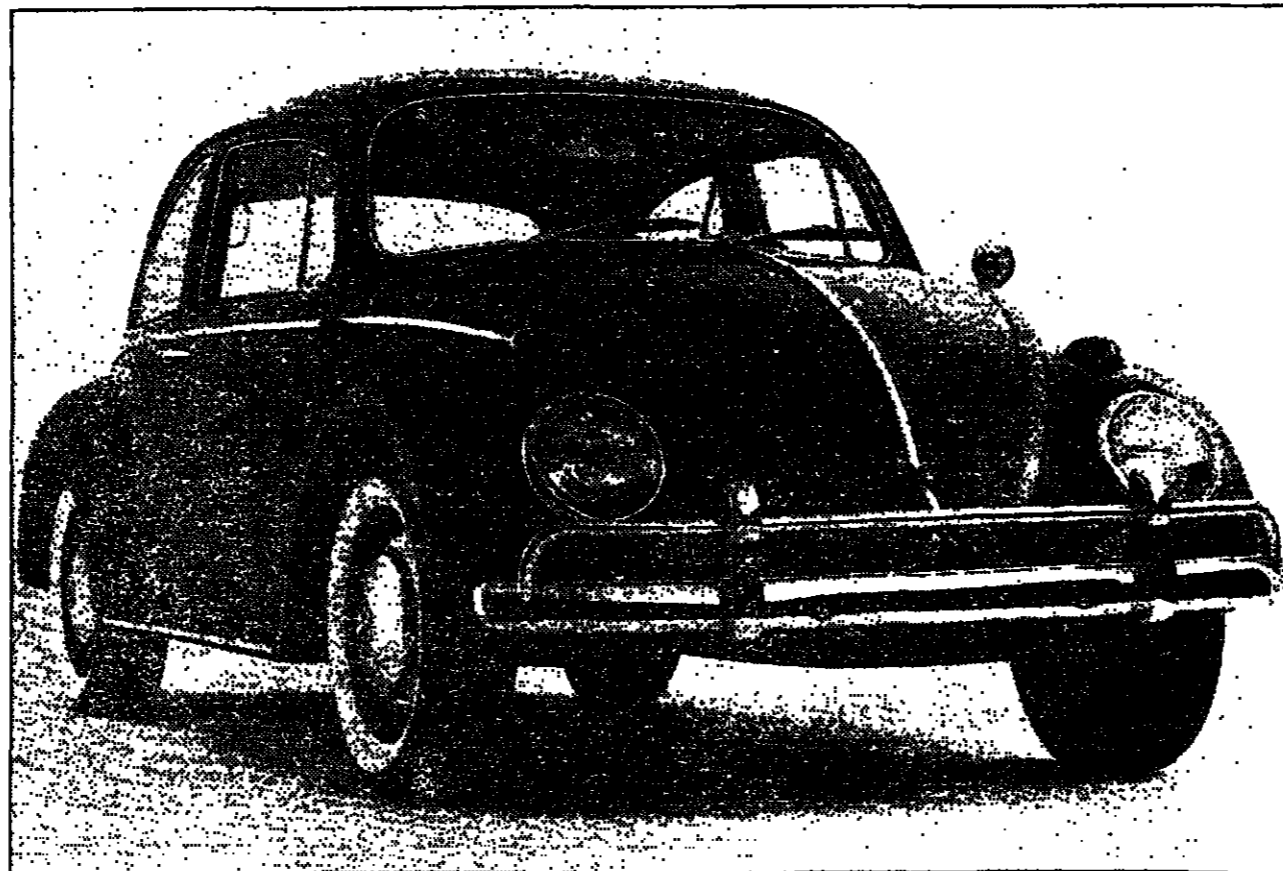
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UK NEWS

Mail users' body criticises post delivery times

BY RALPH ATKINS

THE POST OFFICE was fooling itself and users about the quality of its mail service, the Mail Users' Association, which represents business users, said yesterday.

In a survey of 4,521 letters posted throughout the UK between June and September, the association found an average of 72 per cent of second class mail arrived within three working days. That compares with the Post Office's target of 96 per cent.

For bulk pre-sorted post, the proportion arriving within the Post Office's target of seven working days varied between 58.1 per cent and 68.2 per cent.

The sample of first class letters was limited, but the result suggests that between 43 per cent and 72 per cent arrive the next working day, compared with a target of 90 per cent.

The results are less impressive than figures published by the Post Office. The association says this is because official surveys cover the time between a letter being postmarked and being ready for local delivery, not the postbox to letterbox time.

Mr Julian Blackwell, chairman of the MUA, said the association's results showed official figures were "unrealistic". He

thought the Post Office was spending too much time and money on marketing increasing volumes and introducing new services.

He also warned that if the Union of Communication Workers, the main postal union, goes ahead with plans for industrial action, business users will look for alternatives. These could include advertisements in newspapers instead of direct mail and increased use of facsimile and courier services.

The UCU is currently balloting its members in the Post Office about industrial action in pursuit of a claim for a three-hour cut in the working week.

The Post Office defended its statistics on its service, which show 88.9 per cent of first class letters arrive the next working day while 94.5 per cent of second class letters arrive within three working days. It denied claims by the MUA that its surveys exclude letters posted late in the day or travelling particularly long distances.

However, it added that for months the postal service has been hit by unofficial strikes which have disguised a "firmly improving upward trend" in service quality.

Saatchi appoints deputy chairmen

By Clay Harris

SAATCHI & SAATCHI, the advertising and business services group, yesterday appointed two group deputy chairmen, Mr Jeremy Sinclair and Mr Andrew Woods, and its first non-executive director, Mr Vanni Treves, senior partner with Macfarlane, the City solicitors.

Saatchi needed to add a prominent non-executive director because of its plans to seek a listing on the New York Stock Exchange.

Mr Sinclair, aged 40, will concentrate on operations, with overall responsibility for the co-ordination of all corporate affairs, while Mr Woods, aged 43, will be responsible for corporate planning and long-term development.

Mr Sinclair, a founder of the original agency with the Saatchi brothers, will relinquish his position as chairman of Saatchi & Saatchi International.

Change at Barratt

SIR LAWRIE Barratt has decided to give up the role of chief executive of Barratt Developments, the housebuilder.

He remains chairman while Mr John Swanson, who was responsible for turning round Barratt's troubled US operation, is appointed managing director.

James Capel first again in Extel analysts' league

BY CLIVE WOLMAN

THE INVESTMENT analysts of the two largest City securities firms, Barclays de Zoete Wedd and Warburg Securities, have made the strongest gains in the year since Big Bang, according to the Extel Financial survey published yesterday.

The survey, which is the longest-standing and most comprehensive of UK stockbroking analysts' bonuses and their attractions to headhunters. It is also a rough reflection of securities firms' gains and losses in market shares, as fund managers allocate their commission payments primarily on the basis of the quality of research.

In the overall rankings, James Capel was voted top investment research firm for the ninth successive year. Capel, now owned by the Hongkong and Shanghai Bank, is the only leading firm since Big Bang to have remained an agency broker in UK equities and stayed out of market-making.

Below top position the changes have been more

BROKERS' ANALYSTS RATINGS			
Rank and last weighted votes			
	1987		1986
JAMES CAPEL	1 1991	1	1988
BARCLAYS DE ZOETE WEDD	2 1473	6	331
WARBURG SECURITIES	3 1299	7	845
PHILLIPS & DREW	4 1284	2	1173
HOARE GOVETT	5 927	5	509
CITICORP - SCRIMGEOUR VICKERS	6 854	3	1110
WOOD MACKENZIE	7 801	4	880
COUNTY NATWEST	8 670	9	708
ALEXANDERS LAMB & CRICKSHANK	9 636	10	661
KLEINWORT - GREYERSON	10 506	13	410

far-reaching than in previous years because of the job changes and mergers in the run-up to the Big Bang reforms last October. Barclays de Zoete Wedd has risen from sixth to second and narrowed Capel's lead, while Warburg Securities has moved from seventh to third. De Zoete and Bevan, DEW's predecessor firm before Big Bang, was voted seventh in 1985 while Warburg's predecessor, Rowe and Pitman, was voted 11th.

The four main losers have been Phillips and Drew, now owned by the Union Bank of Switzerland, which fell from second to fourth position, Citicorp-Scrimgeour Vickers, down from third to sixth, Wood Mackenzie, shortly to be sold by the merchant bank Hill Samuel, which fell from fourth to seventh, and Greenwell Montagu, which has dropped from eighth position right out of the top 10.

Overall, 33 per cent of fund managers thought investment

research had worsened since Big Bang, 57 per cent thought it was the same and 11 per cent considered it better. Only one firm, James Capel, was ranked in the "very good" category and four firms were ranked in the "poor" category compared with only one last year. These were Credit Suisse Suchmaster and Moore, Shearson Lehman Securities (formerly L. Messel), which recently dismissed 150 staff, Paribas Quilter Securities (formerly Quilter Goodison) and Shearson.

The survey covered 60 sectors, of which 17 were overseas countries and most of the remainder UK industrial sectors. No account was taken of the market capitalisation of the sectors, so that Spain or UK tobacco companies were given equal weighting with the US or Japan. This distortion has worked to the benefit of Warburg Securities and James Capel, among others. A total of 75 fund managers, controlling \$300m of funds responded to the questionnaire, representing a response rate of 32 per cent.

In the individual sectors, the biggest upset was the fall of the former Scrimgeour Vickers team members who were last year voted top analysts of three sectors - electrical, electronics, and telephone networks. However, they lost Scrimgeour Vickers for Smith New Court a year ago and have now fallen to eighth, fourth and fifth places respectively.

The Greenwell Montagu chemicals and banks teams also lost ground as a result of splitting up. Their leading figures, Mr Stuart Wamsley and Mr Keith Brown, are to join Morgan Stanley early next year. On the other hand, Mr Bob Barber, who was voted leading motors analyst in 1986 when he was at Phillips and Drew, retained his number one position at James Capel this year.

The most outstanding analysts in terms of their dominance of major individual sectors were the RZW textiles team of Mr David Buck and Mr Tim Adams, and the James Capel oil and gas team of Mr David Gray and Mr James Joseph.

Dealer competition 'has hit capital returns in gilt-edged market'

BY PHILIP STEPHENS, ECONOMICS CORRESPONDENT

THE post-Big Bang gilt-edged market has brought advantages for both the Bank of England and for institutional investors, but intense competition among primary dealers means few, if any, are making an adequate return on capital, according to a study published today.

The review of the first year of the market's operation, by primary dealers Alexander Leasing & Crickshank, says that the new trading systems have in many respects operated unexpectedly well.

There has been no "blood-bath" among primary dealers,

the turnover and liquidity of the market have increased significantly, and the Bank of England has successfully met its funding requirements. The cost of trading has fallen significantly for the institutional investor.

However, the report high-

lights a number of continuing problems for the market, some of which are attributed to the dealers. That in turn means that few primary dealers can justify the investment if their gilt-edged operations are seen in isolation from other investment activities.

Higher turnover has not been enough to counterbalance the huge increase in capital em-

ployed in the market since the handful of previous jobbers were replaced by 28 primary dealers. That in turn means that few primary dealers can justify the investment if their gilt-edged operations are seen in isolation from other investment activities.

Toyota to launch first catalyst-equipped car

BY JOHN GRIFFITHS

A CATALYTIC converter-equipped sports car, which can run on unleaded petrol, is to be launched in the UK next spring by Toyota (GB).

The Incheague Group-owned importer said yesterday it expected the Celica GT-Four to be the first on general sale in the UK equipped with a catalyst system.

The system is capable of meeting US and Japanese exhaust pollution limits which are much stricter than the EC standards planned to be introduced in phases from October 1 next year.

Toyota (GB) said the availability of unleaded fuel in the UK was increasing quickly enough for imports to be worthwhile.

Reno, which has been setting the pace on introducing un-

leaded petrol, recently announced its 2000-mile, and the total number of stations is approaching 400. Toyota anticipates many more by the time the GT-Four, which is expected to cost about £21,000, goes on sale.

The car, which has four-wheel drive and a claimed 138mph performance, is to be shown at next week's Motorfair, but the price will not be announced until the New Year.

Toyota said it did not expect to set a precedent for other models to be offered in catalyst form in the UK. It had already developed "lean-burn" engines capable of meeting US and Japanese exhaust emissions standards without catalysts, although they were not yet in production.

Rover technology arm to give up outside work

BY JOHN GRIFFITHS

ROVER GROUP has told its Gaydon Technology subsidiary not to take on any more manufacturing technology consultancy work for outside companies.

The Warwickshire company can complete projects already under way. These include work for Jaguar and Freight Rover - both previously owned by Rover Group.

The instruction is a substantive step for Gaydon Technology away from the semi-independence it gained in the early 1980s when, as BL Technology, it was encouraged to seek out-

side contracts to supplement its primary role as a technology research and development arm for Austin Rover and the other vehicle groups which, at the time, were still within BL.

The move was foreshadowed a few weeks ago in a review of Gaydon operations which, Rover said, would be completed by the end of this year.

About 150 technical and engineering staff redundancies are expected as a result of the review, which is expected to lead to Gaydon Technology being absorbed by Austin Rover.

Sporty Metro introduced

BY JOHN GRIFFITHS

AUSTIN ROVER is introducing body and interior specification changes across its entire range and a limited-edition sporting version of the Metro, in time for the Motorfair at Earls Court next week. Prices will not be affected.

The changes include wider availability of two-tone paintwork, better audio systems and the standardisation of some

items previously specified as "extras".

The Metro 1275 Sport model is based on the City X three-door model and is "designed to appeal to driving enthusiasts."

It will retail at £5,799. The use of the "1275" label provides an indirect reminder of the company's motor sport successes some years ago with the legendary 1275 Cooper S Mini.

OBITUARY

Sir Henry Jones

SIR HENRY JONES, the most influential gas industry figure during the 20 years until his retirement in 1971, has died aged 81.

He became chairman of the Gas Council in 1960 after 11 years as chairman of the East Midlands Gas Board. Under his leadership, the council, the precursor of British Gas, made important technical strides.

These included the development of transport for liquefied natural gas, leading to the import of commercial quantities from Algeria in the world's first scheme of its kind.

In 1949, after nationalisation

of the gas industry, Sir Henry was given the task of unifying the 100 gas undertakings which passed from the private and local authority ownership to become part of the East Midlands Gas Board. During this upheaval he gave priority to the feelings of individuals.

Sir Henry was particularly interested in identifying and developing new management talent at the Gas Council. As a result the council gained a reputation for management progression.

He leaves a wife, three sons and a daughter.

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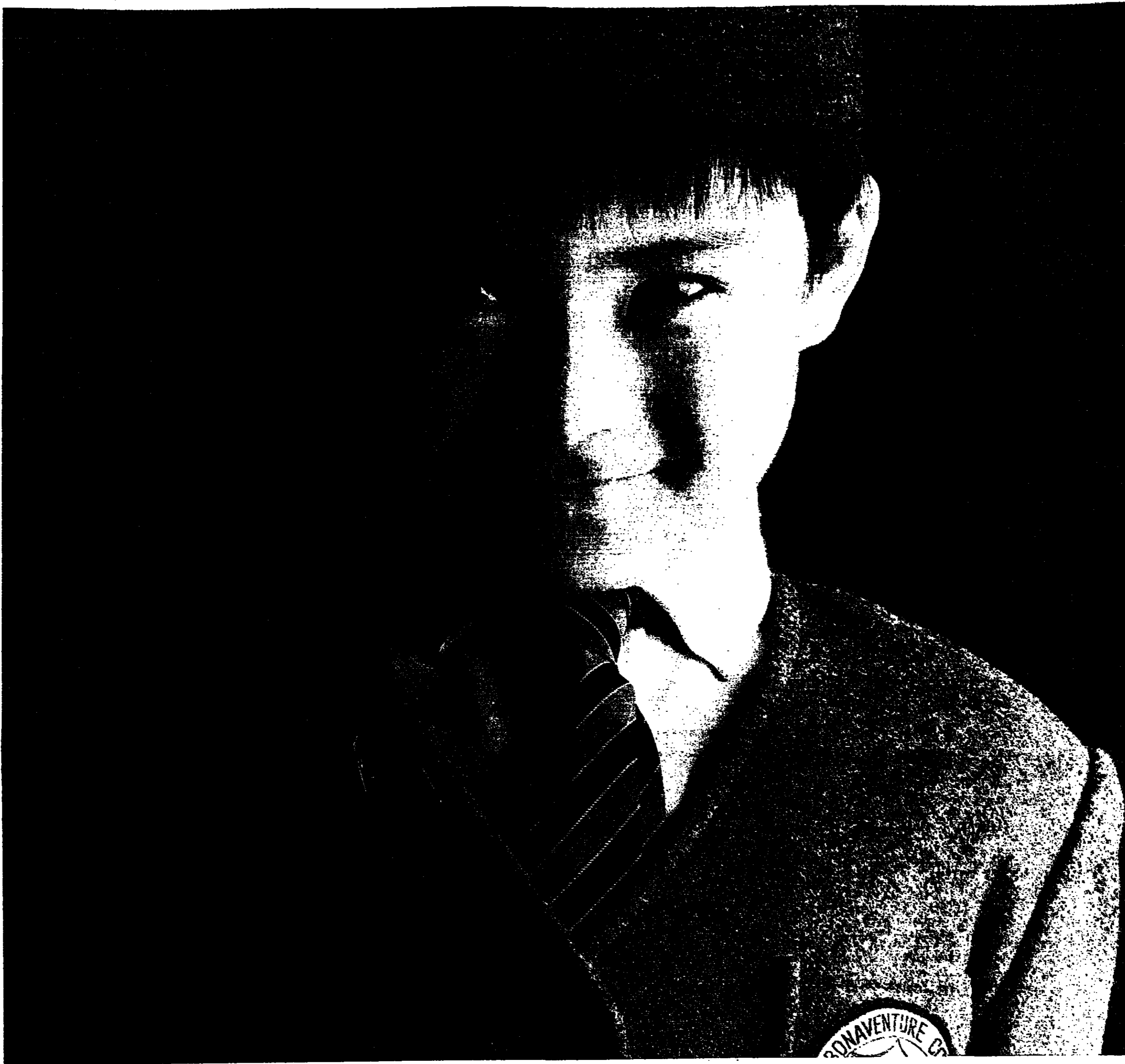
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TECHNOLOGY

THE MARKET for medium-sized, powerful but easy to use business computers has become the most fiercely contested battleground in data processing, and involves over 250 manufacturers around the world.

To date, IBM's fortunes in this area have been decidedly mixed, as Digital Equipment (DEC) and others have taken advantage of its design weaknesses. By the end of next year, however, new machines and a fresh design philosophy should give IBM a new competitive edge.

If it can turn itself around quickly enough, the prizes will be substantial. There are, according to Stephen Schwartz, president of IBM's System Products Division which is responsible for middle-range machines, between four and five million small and medium-sized companies world-wide ready to take the plunge into computing. In the US alone 1m new companies are created every year, each needing data processing hardware and software.

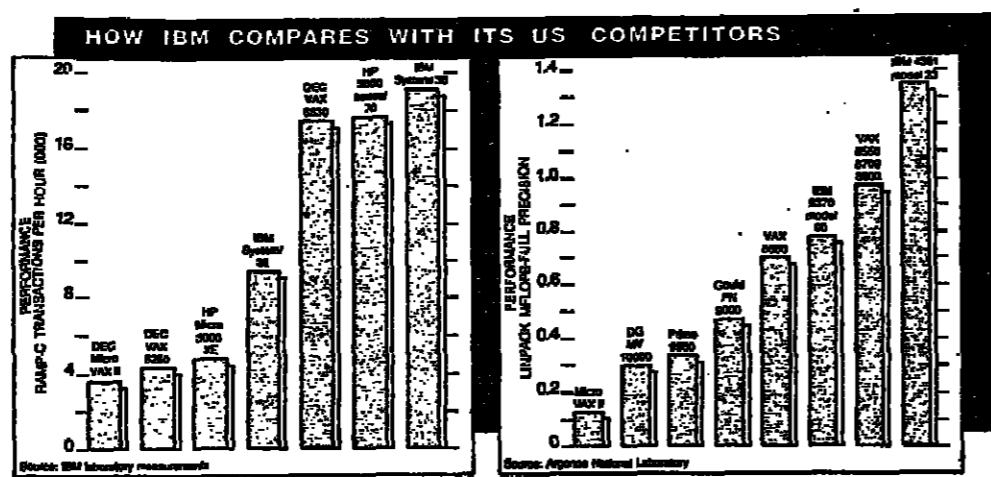
Not all make it, of course, but the survival rate is high enough to confirm market researchers' predictions that more money will be spent over the next few years on the kind of medium-sized computers best suited to these companies than is spent on top-end mainframes.

For IBM, this market has been both a source of pride and pain. Systems Products Division offers four machines catering for the middle ground: the System/36 and System/38 minicomputers, the 4300 series small mainframe family and the new "departmental" machine, the S/36.

The S/36 is the latest model in a family of machines, known generically as S/3X. It has been the most successful model IBM has ever made, with over 300,000 installed world-wide.

So the middle ground has been an area of powerful profitability for IBM. Its problems, however, stem from the fact that, initially, at least, the S/3X, the S/36 and the 4300 family were all structurally quite different, operated on different software, and could not easily communicate with one another.

Modern businesses were demanding a distributed approach to computing with easy and common communication between mainframes at the cen-



IBM sets out to regain middle market dominance

By Alan Cane

tre, mid-range machines in the departments and personal computers on executives' desks.

Companies like DEC - the entire range of which was based on common design principles - were able to take advantage of IBM's design failings to increase market share significantly.

Over the past year, IBM has been fighting back. By the end of next year it will have only three kinds of machine design rather than the seven it had five years ago, and all its computers will be capable of being linked together through a set of rules IBM calls Systems Application Architecture.

The three designs will be:
• Personal computer workstations using the new operating system OS/2.

• Mainframes using IBM's proprietary System/370 architecture. This will include the

4300 series and the S/370 departmental computer.

• A single S/3X family comprising the best features of the S/36 and the S/38.

Schwartz says the first of these new "merged" S/3X machines, which will be compatible with today's S/36 and S/38, will be launched in the latter part of 1988.

Those familiar with IBM will note that it is highly unusual for a senior IBM executive to give a launch date for a machine that has not officially been announced.

The existence of the new machine under a variety of codenames like "Silver Lake" and "Olympus" however, has been an open secret among users of mid-range IBM machines for some time, and IBM is anxious to quell disquiet about the fate of its S/3X line.

The new machine is expected to be designed along the same lines as the existing S/36, probably the most innovative machine IBM has ever developed with very advanced information handling capabilities (it has a built-in relational database) and a host of aids to make programming simpler.

It is thought the new machine will be about twice as powerful as the existing S/36, giving it power equivalent to the lower end of IBM's 3090 mainframe family.

But Schwartz says that the aim is not to compete with the 3090s: "We are not going to build a water-cooled S/3X."

Prospective customers will have a choice then, of two mid-range machine families. S/370 architecture represented by the 4300 series and S/3X. Which way should the customer go?

Schwartz argues that the S/3X range should be the family of choice for the first-time user or the company operating without a formal data centre. Meanwhile, System/370 architecture in the new S/370 machine should be first choice for the user with a heavy data processing load and a central data processing staff.

According to the current issue of Software Markets, the Financial Times software newsletter, software houses are complaining about slow delivery of S/370s, but Schwartz says that no promised delivery dates have been missed.

Nevertheless, there are long waits between order and delivery and Schwartz explains that IBM is still at the bottom of the "learning curve" for manufacturing many of the novel and sophisticated components in the new machines - special silicon chips for the small S/370 models for example.

And every machine family is having to wait in line for supplies of the one million bit memory chip which IBM now uses virtually throughout its range.

Some 1,250 S/370s have been installed in the US and Europe to date, however, and it is hoped that 5,000 will be in place world-wide by the end of this year.

Schwartz pays tribute to the IBM plant at Havant, the sole manufacturing site for a crucial storage component in the S/370 design.

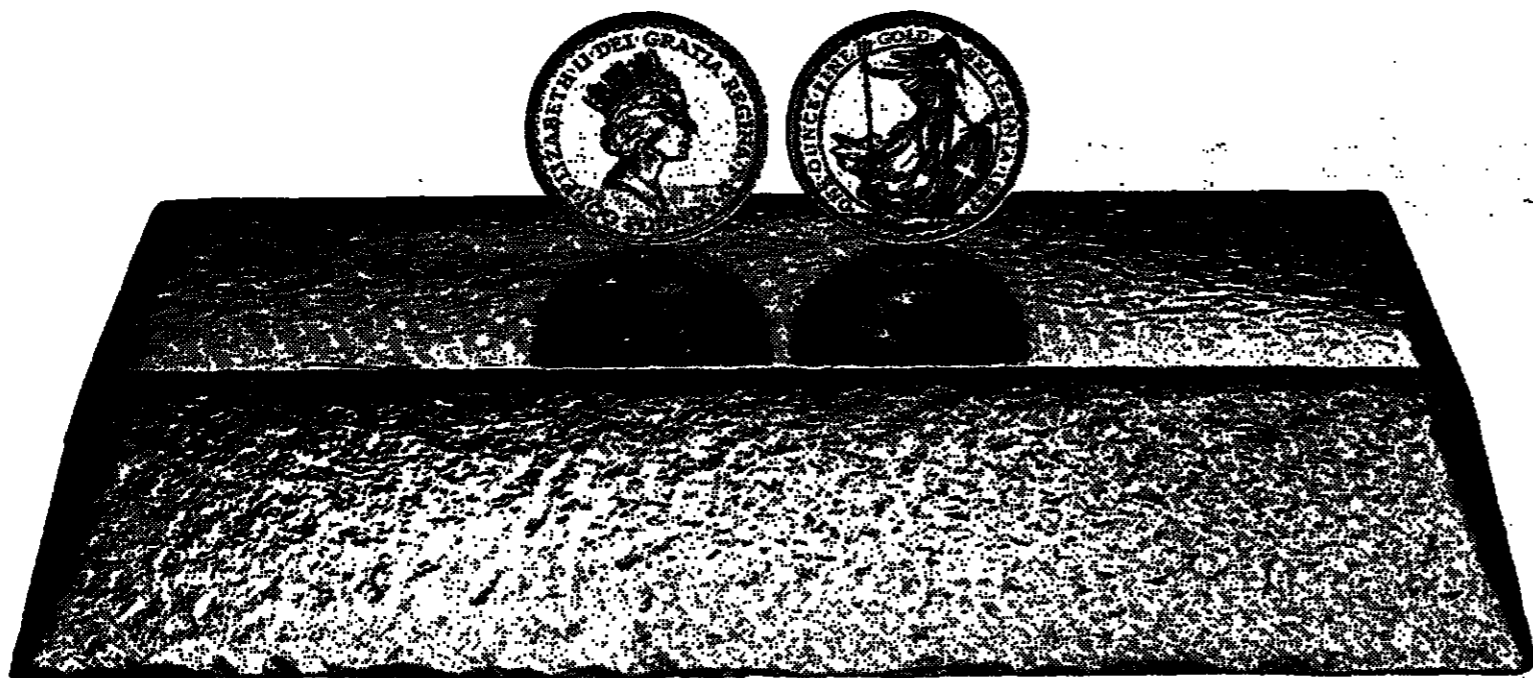
"Havant has achieved more than I would have thought possible. It is well ahead of the game and going extremely well."

The decision to manufacture the storage device only at Havant had been controversial as IBM conventionally uses two or three separate sources.

Schwartz says customers agree that the S/370 does all that IBM said it would do. So is it effectively reversing DEC's inroads into the mid-range market?

He argues that designs for the machine started before DEC's current revival. These designs were measured against a "composite minicomputer vendor", rather than any individual manufacturer, and the S/370 has been built to satisfy their customers' requirements, says Schwartz.

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There is estimated to be only that amount left in the earth.

And it is being mined at the rate of about 2,000 tons a year.

Or, as it is more commonly expressed, 56,320,000 ounces.

Kingdoms, empires and banks come and go. Gold remains.

In fact, its value has increased in the last 10 years, while the value of money has declined.

The problem, if it doesn't sound silly to say so, has been to get hold of it.

But that is now a little easier than it was.

The Royal Mint has now launched the first British solid gold coin for 100 years.

It is called the Britannia.

It is minted in 22 carat gold.

And it is legal tender.

To be more precise, there are four coins.

They contain one ounce, half an ounce, a quarter ounce and one tenth of an ounce of pure gold.

Their price is, of course, determined by the price of gold, which appears in today's paper.

But we can give you an indication of their value.

The bar of gold which you see at the top of the page weighs 12 pounds.

It would buy a house.

Ask at your bank or the Britannia Building Society for details or call 200 0200.

THE ROYAL MINT



EAGLE EYE

by Louise Kahane

LA trembles for its future

WITHIN the next 20-30 years there is a greater than 50 per cent chance of a catastrophic earthquake in Los Angeles.

Seismologists have been predicting it for years, but suddenly people are taking them very seriously.

The strong tremor on October 1, measuring 6.1 on the Richter scale, was for all its terror, merely "a dress rehearsal for the real thing," according to the experts. This is not very comforting to those who are still suffering from the effects of this month's damage.

Beyond raising the awareness of California residents to the ever present earthquake risk, however, the latest LA quake might prove to be the key to more precise earthquake forecasts.

"It will be the most studied earthquake in history," State emergency services officials promise. Last week seismologists from all over the US were swarming over East Los Angeles searching for clues to the origins of the earthquake and its geological effects.

"It is very exciting to have so much new data," explains Kate Hutton at the California Institute of Technology Seismology Laboratory, located close to the epicenter of the quake. Caltech has about 250 earthquake monitoring stations in the Los Angeles region, all of which recorded details of the quake.

From all of this data, the researchers hope to be able to define the pattern of events that leads up to a major quake, so that they can predict future events.

To date, the only reliable clues to future earthquakes have come from determining the time lapses between events on an identified fault. Geologists have found evidence of a 150-year cycle between quakes

on the Southern end of the infamous San Andreas fault that runs along the California coastline from North to South. The last major quake was in 1857, so they expect another before the end of the century.

In some ways "the sooner the better," suggests Steve Bryant, a seismic analyst at Caltech. If the "big one" happened tomorrow it would measure about 8.3 on the Richter scale, over 20 times as strong as the recent quake, he says. "But the longer we wait the stronger it may be, as stress builds up along the fault," he warns.

On the other hand, seismologists are hoping that with a few years more study they may be able to avert disaster by forecasting the quake. Within 20 years, Hutton predicts, seismologists should be able to issue an "earthquake watch" when the fault is likely to break.



Taking the wait out of airline reservations

FOR THOSE who know the routine of a last minute dash to the travel agent followed by a rush to the bank's automatic teller machine, then top speed to the airport (only to wait for a delayed flight), life could be a little easier if Teletix of San Francisco succeeds with its ambitious plans.

The one-year-old company aims to blanket the US, and eventually international markets too, with automatic airline ticket issuing machines.

Much like bank automatic teller machines (ATMs), the Teletix terminals would issue your aeroplane ticket in return for a credit card debit.

Rather than banks waving in the travel agency business, Teletix will initially install its machines within their offices, promising to cut the costs of ticket distribution.

Eventually, however, the company plans to place machines in business hotels and also in bank lobbies, right next to the ATM. Airport retail outlets and convention centres are also on the list of potential sites.

Unlike current computerised ticket distribution systems, the

Teletix machines will not be limited to one or two airlines. And because they are based upon Hewlett-Packard personal computers, they will be much cheaper than the minicomputer-based systems now in use.

The network system is linked to a host computer that holds reservation information. When a traveller inserts his credit card into one of the Teletix terminals he will automatically be identified and issued with his travel documents, one less stop on the way to catch an aeroplane.

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BBC Brown Boveri Ltd, Baden

At the Extraordinary General Meeting of the Shareholders of BBC Brown Boveri Ltd, Baden, Switzerland, to be held on November 11, 1987, one of the proposals of the Board of Directors will be to increase the company's capital by offering one new bearer share, registered share or participation certificate for every 5 securities of the same category. The Board of Directors' proposal concerning the subscription prices for the new securities will be announced later.

It is foreseen that the new securities will be offered for subscription to the present shareholders and holders of bearer participation certificates from November 23, 1987 to December 2, 1987.

Provided the capital increase will be carried out as proposed, the rate of conversion of the US\$ 4% Convertible Bonds due 31st December, 1993, of BBC Brown Boveri Finance (Curaçao) N.V. will be adjusted effective November 12, 1987. The new rate of conversion will be published as soon as possible thereafter. In accordance with the terms and conditions of the US\$ 4% Convertible Bonds due 31st December, 1995, the rate of conversion will be adjusted if it needs to be. An announcement will be made as soon as possible.

The holders of the above-mentioned Bonds wishing to obtain Bearer Participation Certificates granting subscription rights for the new Bearer Participation Certificates are required to exchange their Bonds for Bearer Participation Certificates of BBC Brown Boveri Ltd not later than October 30, 1987.

Bonds will not be convertible from November 2, 1987, to and including November 12, 1987.

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Willemstad (Curaçao), October 14, 1987

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Why poor interviews are worth preserving

BY MICHAEL DIXON

GOODNESS only knows how many readers have complained over time of the incompetence of interviewers in companies and recruitment consultancies. So a good number of you will no doubt welcome a proposal, just received by the Jobs column, for the launching of a Campaign Against Rotten Interviews.

The proposal is the more noteworthy because it comes from the recruiters' side of the jobs market - the originator is headhunter John Courtis, who among other things is vice-chairman of the Federation of Recruitment and Employment Services. His suggestion is also unusual on another count.

People on the employers' side of the market have long shown concern about substandard interviewing. They nevertheless seem to take it for granted that the trouble is rooted, not in any fundamental weakness of the interviewing process itself, but in the human failings of the person conducting it. Hence the remedy is assumed to lie in training poor interviewers to be better ones.

Mr Courtis thinks differently. One reason why he does so may be that he does not work in a company personnel department which could of course only gain in organisational importance by the provision of training in interviewing skills. He evidently believes that the interview has inherent faults as a means of choosing the best candidate for a post - faults which are compounded by the

fact that recruiters who think themselves good at interviewing become convinced that the method is reliable. His remedy is therefore to eliminate interviews from job-selection, if not altogether, then at least as far as possible.

For a start, he claims, their potential for misleading employers into wrong choices could be much reduced by improving the techniques used in the earliest stages of recruitment.

"From what I see, a lot of companies don't think clearly even about the basic approach they're going to use. Take the choice between advertising a job and retaining an executive search consultancy to fill it. They often make the mistake of assuming that the important criterion is seniority. They see search as suited for top jobs with big salaries and use advertising lower down.

The reality is that search is best when the job is one only a few people are capable of doing, which makes it economical to look around for individuals who're suitable and approach them personally. But that doesn't apply just to top jobs; it's true of a good many at a fairly humble level.

"Conversely, advertising comes into its own when the work could be done by such a large number of people around the world that no searcher could be expected to identify them all. And that applies to a lot of senior posts as well as to

jobs lower down."

John Courtis also maintains that advertisements themselves tend to be too loosely worded. They consequently attract applications from people whose skills and experience are not up to the job even though they are good at presenting themselves on paper and have charming personalities. "If ads were made more accurate, fewer plausible no-noes would get through to the interviewing stage - and there'd be less chance of the interviewers picking the wrong person."

The importance of interviews in the selection process could be reduced by putting applicants through tests of ability and personality which had been shown to be relevant to success in the work and company in question. To the same end, recruiters could make more use, with candidates' permission of course, of telephone checks on their references.

In putting forward those suggestions, Mr Courtis is undeniably making out a persuasive case for his campaign. The Jobs column nonetheless remains somewhat short of persuaded, even though it agrees that interviews often lead recruiters to make mistaken decisions.

One misgiving I have is about his advocacy of more reliance on ability and personality tests, which are already becoming popular with employers. The trouble is that I cannot see any convincing evidence that, when

it comes to predicting success at work, tests are significantly more accurate than skilful interviewing.

Witness the results of a review recently made by Dr Ivan Robertson and Dr Mike Smith, of the University of Manchester Institute of Science and Technology, of research into the reliability of testing methods. One way of gauging their accuracy is to compare such methods' predictions of people's suitability for a job with their actual performance in it afterwards, and then work out to what extent the tests' forecasts were more accurate than predictions made on the basis of pure chance.

By that yardstick, the most dependable single method among the wide range studied by the two researchers was the "work sample" or "in-tray" exercise. It confronts people with various tasks which are important in the job at issue, such as a pile of letters and statistical reports, and measures how well they deal with them. But even that test turned out to be only 21 per cent more reliable than pure chance prediction.

Second, with an 18 per cent rating, came "supervisor/peer evaluation", which consists of

uniformly structured assessments of candidates' ability made by the people who would work directly above and alongside them. Next, a fraction of a percentage point behind, came "assessment centres" which are essentially expanded versions

of the work sample device. Fourth with 12 per cent, came intelligence quotient tests followed closely by a method in which candidates' backgrounds are systematically studied for evidence of characteristics linked with success in the work.

Sixth place went to reference-checking, but its rating was only 5 per cent more reliable than pure chance. Interviews were less dependable at 3 per cent. But even they were better than personality assessments with 2 per cent, and tests of candidates' interests with 1. So the evidence would seem to be that even methods which are a great deal more expensive than interviewing are still more likely to prove wrong than right. In the circumstances, for most employers, the testing game could surely be scarcely worth the candle.

By my main reason for not leaping to join John Courtis' campaign lies in the fact that, although I try to be impartial, on the topic of employment my natural sympathies lie with the folk on the candidates' side of the recruiter's desk. For one thing, I can remember too well the days when any employer looking at my curriculum vitae might justifiably have asked why I had not added the dates on which I was arrested, sentenced and at least imprisoned.

In the case of people in that sort of pickle, which might not be their own fault, the only hope of career success lies in

doing well enough in an interview to persuade an employer to take a chance on them. It may be that, in John Courtis' view, only a rotten interviewer would ever take such a risk against the evidence of someone's previous record. If so, long live rotten interviewers!

Beauty

NOW to a rare type of post which is offered by Neil Jamieson, chairman of the Scottish Seaside Trust, a charitable organisation formed two years ago by Scots exiled in London with the object of winning greater protection for their native land's beautiful countryside.

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Applicants should be persuasive and demonstrably skilled at dealing with governmental and other officials.

"It will be more a labour of love than of financial reward," says Mr Jamieson, "because we can't afford more than £12,000 in salary. On the other hand, the director will be based in pleasant surroundings - probably the Highlands.

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- You will enjoy being part of a developing team where your experience and ideas will have a major impact on the strategy adopted by the department.
- You will enjoy — above all — marketing the full range of traditional and new products within an innovative environment.

If you feel that your talents and experience would be suited to this role and are aged 25-35, please apply in confidence to Susan Milford, Manager — Financial Appointments quoting reference CG0532

Telephone: 01-256 5041 (Out of hours 0483 37480)



Management Personnel

Recruitment Selection & Search
10 Finsbury Square, LONDON EC2A 1AD.



Philadelphia National Limited

A WHOLLY OWNED SUBSIDIARY OF THE PHILADELPHIA NATIONAL BANK, U.S.A.

Career Opportunities in Merchant Banking

Philadelphia National Limited is the international investment banking arm of the Philadelphia National Bank, a market leader in the application of modern technology to international banking operations. Philadelphia National Limited combines this commitment to high-quality automated systems and controls with the traditional merchant banking principles of teamwork, flexibility and professionalism. If you believe that you measure up to our standards, we would like to hear from you about two specific vacancies.

Internal Auditor

We would like to hear from experienced individuals with an auditing background in the merchant banking or securities industry. The requirement is for a mature person with sound technical skills and a good commercial appreciation of merchant/investment banking products and transactions. He or she will set up and run a full internal audit function reporting directly to the Chief Executive Officer in London and working closely with the internal audit department of our parent bank in Philadelphia.

The right candidate will join us at Manager level and the remuneration package will fully reflect the importance which a conservative but forward-looking institution attaches to the internal audit function in today's rapidly-changing financial markets.

Settlements Supervisor

We operate a fully integrated settlements department which has responsibility for the timely settlement and control of all transactions in securities (Eurobonds and foreign domestic issues), foreign exchange, money-market paper, swaps and futures. We are seeking a strong and effective deputy to the Manager of this important department. The successful candidate will take full responsibility in the Manager's absence and must therefore have successful experience not only of routine settlements procedures but also of trouble-shooting, investigations and the management of people.

Please contact:

Manfred W. Neie at
PHILADELPHIA NATIONAL LIMITED
Philadelphia National House
3 Gracechurch Street, London EC3V 0AD
Telephone: 01-623 8100

SCOTLAND

We are for most of the financial institutions in Scotland and Ireland in London. Our clients are:

- Investment Managers
- Insurance Companies
- Charitable Foundations
- Private Client Managers
- Trusts
- Asset Managers

For a full list of our clients and a complete list of our services, please contact:

Mr. John W. A. C.A.
ASA International
41 George Street, Edinburgh EH2 2JG
Tel: 01-224 6222 or call 01-224 6222
Telex: 01-224 6222 or call 01-224 6222

ASA INTERNATIONAL

AT A CAREER CROSSROADS?

Hill Samuel Investment Services is seeking executives, aged 25 to 50 and with experience in industry, commerce or the professions, to become Personal Financial Advisers. All necessary training and support, including office facilities, will be given to enable you to promote the renowned range of Hill Samuel personal and corporate financial products and services. London commuter area.

Contact:
Michael Tait, 01-222 4854,
Hill Samuel Investment Services
29 Queen Anne's Gate, London SW1 9QB

Pension Fund Investment Management

Bankers Trust is one of the most successful and progressive investment management companies in the world. Our UK Pension Funds have a first-class investment record. An excellent reputation that is enhanced by a combination of innovation and high standards of customer service. Building on our strengths, we are now developing this key area. And our exciting future plans include a challenge for talented, high performing, young professionals.

Marketing Manager

You will market our investment management services and employee benefits to actuarial or pension consultancies, and corporate pension schemes. This will entail presenting and negotiating at a senior level as well as advising clients on technical aspects of investment management.

Relationship Manager

You will be responsible for servicing and expanding existing client accounts as well as establishing new customers. Essentially you will represent the investment management team as well as being involved in the creation, development and handling of new co-mingled funds.

Both positions report to the Marketing Director and operate with a high degree of independence. You're likely to be working in a similar environment at the moment as a pensions consultant or in a similar position in an insurance company. You'll have a good knowledge of the UK pensions market, the personality and energy of a self-starter and immaculate presentation skills. And you must enjoy working in a pressurised, performance-oriented environment. Salaries for these positions are very competitive and we offer the usual banking benefits and excellent future prospects.

For further information or a confidential discussion please telephone 01-726 4141 or send your CV to Donna Marcus, Bankers Trust, Dashwood House, 69 Old Broad Street, London EC2P 2EE.

Bankers Trust Company
Merchant banking, worldwide.

Executive- Commercial Paper

KLEINWORT BENSON INTERNATIONAL
are seeking to strengthen their Commercial Paper Sales team with the addition of a dynamic, experienced young professional.

Responsibilities will include continuous contact with customers world-wide with the purpose of marketing a broad and comprehensive range of money market and fixed interest securities. In addition, the successful candidate will be required to advise existing and potential issuers of Euronotes/C.D.s/Commercial Paper as to advantages of issuing and procedures thereof together with acting as a Salesperson/Trader. Advice will also be provided to existing clients on current market conditions as well as on relevant investment strategies relating to their short-term liquidity management. A liaison role between London and New York money market sales desks is also an important responsibility.

Candidates must have a Business/Economics Degree as well as computer skills plus at least 2 years' relevant financial/capital markets experience, ideally developed through time spent in the U.S. financial environment. An excellent command of English, gained in a business environment is essential.

Please apply in writing with fully detailed CV to:
Miss Sarah Kelly Personnel Department,
Kleinwort Benson Group 20 Fenchurch Street,
London EC3P 3DB.

Kleinwort Benson Group

APPOINTMENTS ADVERTISING

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Tessa Taylor
ext 3351
Deirdre Venables
ext 4177
Paul Maravilla
ext 4676
Elizabeth Rowan
ext 3456

Chief Credit Officer (Europe, Asia, Pacific)

**City based
Up to £40,000
plus Car & Mortgage Benefit**

Our client has an international banking presence in Europe, Asia and the Pacific and wishes to appoint a Chief Credit Officer with experience of credit appraisal in those regions.

The successful candidate must have at least 15 years relevant experience with particular exposure to Europe, Asia and the Pacific in commercial lending, property lending and project financing.

First class interpersonal and communication skills are essential as well as a creative approach.

There will also be opportunity to be part of a team contributing to international strategy.

Please write with details of your career to date to:
J.D. Vine, (Ref. FT77), Vine Potterton Limited, 152/153 Fleet Street,
London EC4A 2DH. Please state separately if there are any organisations in which you would not be interested.

VINE POTTERTON
RECRUITMENT ADVERTISING

UNIT TRUSTS FINANCE MANAGER

c£30,000 + Car and Benefits

Our client is a subsidiary of a multinational financial services group with a wide private and commercial client base. The Group has recently made major inroads into the unit trust market and intends to develop this sector further as a significant part of the business. The need has now arisen to appoint a manager to set up separate accounting systems. Reporting to the head of the unit trust sector the job gives sole responsibility for all the financial functions.

We seek individuals with three years experience of unit trusts who have provided financial management information for senior management. You will now be looking to run your own finance operation from a green field site with an opportunity to put your own ideas and experience to full effect.

Prospective candidates should apply in writing with a curriculum vitae to me, Robin Witheridge, consultant to the company. All applications will be treated in strict confidence and your name will not go forward without your consent. Mervyn Hughes International Limited, 63 Mansell Street, London E1 6AN.

International Investment Bank seeks...

CITY SOLICITOR

to £40,000 + Car + Bank Benefits

Our client is a dynamic and respected international investment bank, thriving post Big Bang. It is continuing to expand and is both a comprehensive wholesale financial services company and a leader in world Capital Markets.

The London office, together with offices in New York and Tokyo contributed to group profits in 1986 of well over £400 million, and the Company is exceptionally well capitalised to support further growth.

The legal department provides advisory services to all business areas within the investment bank and other subsidiaries. As a member of a small, and highly professional team, the successful

candidate will therefore be directly involved in a wide range of activities.

The person our client seeks will probably be between 25 and 35 years old and a Solicitor with good quality City experience. A positive commercial approach together with the ability to communicate effectively, will be essential qualifications for success.

Career prospects are excellent either within the department, where there is genuine scope for growth, or in other areas of the organisation. The position offers intellectual variety, the opportunity to contribute to the continuing success of this world leader and excellent financial rewards.

In the first instance, please contact Felicity Hooper in confidence on 01-606 1706, or write to her at Anderson, Squires Ltd., 127, Cheapside, London EC2V 6BU.

Financial Recruitment Specialists

Anderson, Squires

A Major European Bank Senior Forward Foreign Exchange Dealer

£ negotiable

Our client, a well established European bank with a strong commitment to growth in the United Kingdom, wishes to recruit an experienced senior forward foreign exchange dealer to establish the bank's presence in this area.

Candidates, probably in their late twenties/early thirties will have a minimum of four years' foreign exchange dealing experience with at least two years specialisation of forward trading in major currencies.

For the right candidate this position provides an excellent opportunity to join a modern and expanding treasury.

Those interested please contact John Green on 01-404 5751 or write to him in strictest confidence at Michael Page City, 39-41 Parker Street, London WC2B 5LH, quoting reference 6019.

MP

Michael Page City
International Recruitment Consultants
A member of Addison Consultancy Group PLC

SPOT F.X. DEALERS

Liechtenstein (U.K.) Limited, a wholly-owned subsidiary of Bank in Liechtenstein AG, is expanding its dealing activities and wishes to appoint two spot dealers, who are to trade principally Swiss Francs and Deutschmarks.

Aged between 22-28, applicants should have at least 2 years' active dealing experience in a major currency.

Salary will be commensurate with experience and track records. Normal banking benefits apply.

In the first instance send a C.V. to:
Faye Sinclair,
Liechtenstein (U.K.) Limited
1 Devonshire Square,
London EC2M 4UJ

MARKETS AND TREASURY

DC Gardner & Company, the world's leading specialist international banking consultancy is continuing to expand its Capital Markets division with considerable success and in order to maintain this momentum is looking to appoint successful bankers in the following positions:

ASSISTANT DIRECTOR

This appointment involves identifying training needs in organisations, selling the solutions and developing and conducting training courses. We are particularly interested to hear from people with a Capital Markets and/or Treasury background. A relevant professional qualification would be an advantage.

RESEARCH CONSULTANT

This position requires researching into different areas of financial services and assisting with the writing and design of course material. Both positions offer substantial opportunities and your success will depend on your ability.

An attractive remuneration package is available for the successful applicants. Please write in the first instance including a detailed Curriculum Vitae to:

Rodney Fetzler Divisional Director
DC Gardner & Company Ltd 5-9 New Street London EC2M 4TP

DC GARDNER & CO
LONDON MANCHESTER SYDNEY

Jonathan Wren INVESTMENT MANAGEMENT INTERNATIONAL PRIVATE CLIENTS PORTFOLIO

Our client, a leading international bank, is seeking an additional Portfolio Manager to play an important role in the expansion of its highly successful investment management team.

The ideal candidate will have experience of managing discretionary multi-currency bond and equity portfolios for non-resident individuals, together with the personal attributes expected of a manager who will deal regularly with high net worth customers.

An attractive remuneration package is offered (according to experience) together with an impressive range of fringe benefits.

Applications in writing, accompanied by a curriculum vitae, should be sent to Richard Meredith.

LONDON BRUSSELS HONG KONG SINGAPORE SYDNEY

Jonathan Wren
Recruitment Consultants
No.1 New Street, (off Bishopsgate), London EC2M 4TP.
Telephone: 01-623 1266. Fax: 01-626 5258.

Corporate Finance Influence And Create Future Policy

The securities arm of this major UK financials conglomerate is seeking to recruit two professionals to help formulate the future strategy and direction of the Corporate Finance Department. The senior management recognises a need for a radical and innovative approach to this highly competitive area. You will be given every opportunity to demonstrate your imagination, flair and determination.

As a Corporate Finance Executive within a small and highly professional team, you will immediately become involved in new issues, take-overs, placings, rights issues and other corporate advisory matters. You will put to good advantage your sound grasp of fundamentals and your comprehensive understanding of regulatory requirements and documentation. A prerequisite will be your ability to initiate, structure

and close successful deals.

Aged between 25-30, you possess a legal/accountancy qualification and have experience within the corporate finance department of a stockbroker. By nature determined and resilient, you thrive on pressure and seek a position where you can respond enthusiastically to this challenge which will provide the autonomy and career pathway you are looking for.

The remuneration package is highly competitive and includes attractive benefits. To apply please write in complete confidence with full career details to Matthew J. Wright or Vincent J. Thomas, of Cripps, Sears & Associates Limited, Personnel Management Consultants, International Buildings, 71 Kingsway, London WC2B 6ST. Telephone 01-404 5701.

Cripps, Sears

UK Equity Dealer

Our client is the London based subsidiary of a leading international securities house. Due to increased business and a policy of controlled growth, an interesting position has arisen for a UK Equity Dealer.

Reporting directly to the Assistant Manager, the successful candidate will be responsible for executing orders, maintaining contact with the market and running a book. In addition there will be the opportunity to develop further the in-house dealing operation by building a team around the success of the individual appointed.

Candidates will be aged 24-29 and have three to five years' experience in the UK equity market as dealers. Respondents must be able to make an immediate contribution and will be capable of generating their own ideas, be independent and responsible.

The remuneration package offered with this position is generous. It will include a performance related bonus and subsidised mortgage, in addition to other perquisites.

In the first instance, please write to Timothy R. Wilkes at Michael Page City, 39-41 Parker Street, London WC2B 5LH or telephone on 01-404 5751. All replies will be treated with the utmost confidentiality.



Michael Page City
International Recruitment Consultants

A member of Addison Consultancy Group PLC

Hoggett Bowers plc

Executive Search and Selection Consultants

CITY DIVISION

French/German Equity Specialist To £50,000
Candidates with a minimum 2 years experience of selling French or German equities to UK institutional investors are required for a major international securities house with a long term commitment to the International Equity Markets. These positions therefore offer first class career development prospects.

Senior Manager - Project Finance £40,000
On behalf of a major US investment bank, we would be interested to meet high-fliers with at least five years experience in the specialised area of international project finance. Applicants should be educated at least to first degree level and have considerable knowledge of engineering financial packages in a high profile role. The position will be based in London within a young team and involve developing business on a worldwide basis.

Swaps Specialist To £30,000
A London-based securities house with a prominent position in the capital markets is seeking a Swaps specialist with a minimum of 2 years direct experience in interest rate and/or currency swaps.

Account Manager £25,000, Car
A leading city based international bank wishes to recruit an Account Manager to contribute to the creation of new business opportunities for the bank. The position involves effective servicing of existing customers plus contacting potential new customers and making the full range of bank services. The successful applicant will have a sound banking background, including Credit Analysis and a strong track record in marketing to UK Corporates. Prospects are excellent.

Internal Auditor £35,000
An Internal Auditor, with at least 4 years bank audit experience is sought by this City based bank. The Audit tasks cover the operation of the bank in the UK, together with its associated overseas operations. The successful candidate will have a knowledge of UK, USA, banking, securities and law instruments and will be expected to make a contribution to the overall business and systems development. A knowledge of German would be an advantage.

Assistant Manager - Accounts & Control c £21,000
A self-motivated team leader is currently sought to operate the controlling function within the Accounts and Control Department of this City based bank. The successful candidate will be able to lead and motivate his/her team in maintaining and/or improving existing controls and systems, including computerised systems. The successful applicant will have a banking background, knowledge of systems accounting, Mifid, EDE FX and multi-currency accounting plus team-management skills. A knowledge of German is an advantage.

Manager, Credit Syndications £20,000
A prestigious US banking group is seeking to supplement its credit team with a graduate who has at least two years exposure to syndicated credit facilities and specifically NIPS and RIPS. This is a progressive role within a young, professional environment where personal qualities are also of prime importance as the position involves considerable contact with external business and financial institutions.

Private Clients Executives c £20,000
Due to rapid increase in business, our client, a top City institution, is seeking experienced Private Clients advisers with a successful Stock Exchange qualification to supplement its expanding department. Prospects for career progression are excellent for successful applicants.

01-588 4305/6 Moorgate Hall, 153/157 Moorgate, LONDON EC2M 6XB.

Client Relations/Account Manager

Invoice Discounting/Factoring

£18k + car + banking benefits

Richmond, Surrey

UDT Commercial Finance Ltd is a progressive and profitable company providing working capital to companies throughout the UK. Currently undergoing an ambitious expansion programme, the company now wishes to recruit an experienced Account Manager to maintain credit responsibility for approximately 50 corporate clients.

Reporting to the Operations Controller, you will be expected to take overall charge of all investments within your portfolio and ensure that clients receive the best possible service from the company and maximise the benefits of the product.

Probably aged between 25-35, you will have experience of receivables funding through

invoice discounting and factoring and will possess first class analytical skills as well as the ability to develop strong business relations.

At present, the company employs 40 people but there will be many opportunities for career advancement thus the successful candidate must show the personal qualities necessary to move into management in the near future. As well as excellent career prospects benefits include company car, subsidised mortgage, non-contributory pension and private health care.

Please supply full career details to Barbara Collett, Mercuri Urval Ltd, Spencer House, 29 Grove Hill Road, Marrow, Middlesex HA1 3BN quoting ref 32/87.

Mercuri Urval

RELATIONSHIP OFFICER

City

to £25,000 + discretionary bonus

An exciting opportunity has arisen for an Account Officer with proven credit skills, who would relish the challenge of marketing a comprehensive range of facilities to organisations drawn from the Times Top 250.

□ Your role will be to strengthen existing relationships with some of the UK's largest corporate names ensuring that business opportunities are maximised, utilising both traditional and new products.

□ You will find the product range, level of client contact, as well as career development opportunities combine to make this an attractive opportunity within an organisation which is very firmly committed to the London market.

If you would like to develop your marketing career within one of the world's largest banks, please telephone or write to Susan Milford, Manager - Financial Appointments quoting reference CG0550

Telephone: 01-256 5041 (Out of hours 0483 37480)



Management Personnel
Recruitment Selection & Search

10 Finsbury Square, LONDON EC2A 1AD.

Securities Markets

GERMAN EQUITY SALES

We act for one of the leading International Securities Houses with an established place in the London Market. They are presently undergoing a period of great expansion in their International Equity operations and require additional senior specialists in several key areas. Of particular interest is an experienced German Equity salesman who may well have spent part of his career working on one of the main German Exchanges. The successful candidate will be able to show an impressive track record with a respected organisation and the ability to contribute to a young and ambitious team. In return, a highly negotiable salary package is available with the usual banking benefits.

CONVERTIBLES AND WARRANTS SALES

The same client has a requirement for two outstanding Convertibles and Warrants sales people. If you can claim to have established a name in a broad range of both of these products and would be able to assist in the development of a major underwriting facility, our client would be happy to offer very substantial remuneration.

These appointments are at a senior level and the chosen candidates will be in position to influence the direction of the organisation. For a confidential discussion of these positions, please call Simon Harrison on 01-481 3188.

LME OPTIONS DEALER

Our client, a major US investment House wishes to appoint an experienced LME Options Dealer. If you have in depth option trading experience on this market and are capable of running a large options book and servicing major institutional and corporate clients we will be interested to hear from you.

For the right candidate the salary package on offer should not be an obstacle.

To discuss this position, please call John Benson on 01-481 3188.

**CHARTERHOUSE
APPOINTMENTS**

CHARTERHOUSE - WORLD TRADE CENTRE - LONDON EC1M 6AA - 01-481 3188

Shepherd Little & Associates Ltd

Banking Recruitment Consultants

SENIOR CREDIT MANAGER £30,000+

This is a high profile credit assessment role within a major US bank. Apart from having well developed risk analysis skills the successful candidate will be expected to have sufficient commercial flair, that will enable him/her to directly contribute to the "bottom line".

Candidates in their 30's or 40's will be expected to relish the opportunity of being able to influence events by actively participating at the opportunity seeking, negotiating and structuring stages of a deal. Please contact Brenda Shepherd or David Little

WORLDWIDE TRAVEL c£20,000 + expenses

Our client is a major US bank seeking to expand its team of international auditors. The job requires the successful candidate to spend eleven months each year travelling with small head office inspection teams to branches of the bank anywhere in the world.

On the job training will be provided to applicants in their mid to late twenties who have some banking or accounting experience and are single, outgoing and confident. Before moving on within the bank's European or UK operations a minimum of two years commitment to this challenging role will be expected. Please contact Keith Snagrove or David Little

ASSISTANT SYNDICATIONS MANAGER c£18,000

The Merchant banking subsidiary of a leading American Bank have an opening for an Assistant syndications manager to work within the bank's Asset swaps and syndications area.

The appointee will act as product manager for Syndicated Credit, NIPs, RIFs etc, with responsibility for pricing of new credits of facilities and will participate at a high level with potential underwriters/syndicate members.

Ideal applicants aged 25/30, should be graduates with a sound knowledge of syndications and an understanding of PCs.

Please contact Brenda Shepherd

SENIOR PROJECT FINANCE MANAGER

A self motivated Project Finance Manager with ability to lead an assistant manager and initiate market trends is sought by this leading American Bank.

The bank requires a graduate, preferably with a further degree and at least 5 years project finance experience.

The job involves identifying project finance advisory/financing opportunities and to carry out appropriate market research, follow up and execute transactions resulting in the earnings for the group and to realise viable project finance activities through stages of advice, financing, structuring mandate award, negotiating placement and documents.

Please contact Brenda Shepherd

Ridgway House 41/42 King William Street London EC4R 9EN
Telephone 01-626 1161



RIYAD BANK

Riyad Bank, a leading Arabian Bank, offers an outstanding opportunity to join an expanding team of experienced bankers in Saudi Arabia with the following new appointments:

RECRUITMENT PROJECT MANAGER C US\$ 65,000

You will be a front line recruitment specialist familiar with modern techniques of selection and with a depth interviewing experience. Your initial task would be to develop and implement the system for recruitment of all categories of staff to the Bank. You will prepare appropriate literature for recruitment from Saudi schools and universities and from universities abroad.

Recent banking experience is essential for this position. Self motivated candidates with the tact, flexibility and adaptability to work in a multi-cultural environment needed.

CORPORATE OFFICERS C US\$ 55,000

You will be one of the several

officers in our growing Corporate Banking Units whose responsibilities will be to sustain, develop and solicit major customer relationship in assigned Regions of Saudi Arabia. You should have experience in credit analysis and Account Officer responsibility for delivery of wholesale banking services including trade and project finance.

A fully competitive package will be offered to the right candidates who should have at least five years' service with a major commercial banking institution and have exhibited adaptability and high levels of motivation in a competitive environment.

Candidates are invited to submit their applications, in strict confidence to:

The Assistant General Manager (Personnel)
Riyad Bank, Head Office,
P.O.Box 1047, Jeddah-21431, Saudi Arabia.

STOCKBROKING OPPORTUNITY

Leading firm of Scottish stockbrokers require an experienced person for their Dundee office to assist in managing their expanding private client business.

Applications welcome from existing members of the Stock Exchange who are looking for a better quality of life than currently being experienced in the City post "Big Bang."

Attractive salary and potential directorship are offered to the right applicant.

Apply in writing to:
Bruce O. Crawford, Esq.
Messrs. Stirling Hendry & Co.
Exchange House
16 Royal Exchange Square
Glasgow
G1 3AD

FIRST CAREER MOVE IN BANKING OR STOCKBROKING?

SOME FACTS ABOUT US

- We handle only First Class Candidates.
- We deal only with Blue Chip Clients at the highest level.
- Over 70 per cent of our candidates receive at least one offer.
- 65 per cent of our candidates placed are women.

NOW ABOUT YOU

- Are you considering a career move?
- Do you have a good degree?
- Are you currently working in banking or stockbroking?
- Would you care to meet two City Recruitment Specialists for a one-hour free counselling session?
- All replies will be treated with the utmost confidentiality.

Please telephone John Lord on 977 8105 or David Jones 0444 422299 or send your C.V. to
THE CITY RESOURCING PARTNERSHIP
256 BISHOPSGATE
LONDON EC2B 2PH

01-256 5041

Linguistic Accountants

Commute to Europe
Up to £25,000

Specialist systems/control monitoring team in leading international group seeks new member(s) who would receive language/computer training during a planned programme of performance reviews, mainly in European capitals. Major opportunity to improve corporate efficiency and profitability.

Candidates must be qualified accountants aged 27 or over with public practice (or internal audit) experience, an interest in computer systems, personal communication skills and good working knowledge of at least one European language. Good fringe benefits and prospects. Surrey based.

Write in confidence to John Courts at John Courts & Partners, 104 Marylebone Lane, London W1M 5FU, demonstrating clearly how you meet our clients requirements, quoting ref: 7205/FT. Both men and women may apply.

JC&P

Management
Selection and
Search

London, Milton Keynes, Northwich

CHIEF DEALER FOREIGN EXCHANGE

Substantial Financial Services Group

Our Client is a major and diversified financial services organisation. From its London Head Office, the Company maintains extensive international dealing operations and, following an internal promotion, it seeks to appoint a Chief Dealer to maximise its foreign exchange trading activity.

Candidates, probably aged 28-35, should possess a minimum of 4 years' active dealing experience gained ideally from within the finance or treasury division of a major multinational corporation; knowledge of the swap and cross currency markets is regarded as essential.

This senior position affords the opportunity to develop both one's trading expertise and long-term career horizons with a "household name". A competitive salary and fringe benefit package will reflect the importance attached by the Company to this appointment.

Contact Norman Philpott in confidence
on 01-245 3812

NPA Management Services Ltd

12 Well Court, London EC4M 9DN. Telephone 01-248 3812 3 4 5

Management Consultants - Executive Search

Financial services

Associate Director, Compliance

British & Commonwealth Holdings PLC
City, from £45,000 + benefits + bonus



For one of the fastest growing UK based financial services groups, the pace and scale of the Group's development ensure that this is viewed as a key appointment within the central management team.

You will have responsibility for overseeing the development, implementation and operation of compliance procedures across the Group and will be the Group's principal link with the SROs. Of particular importance will be the establishment and maintenance of close liaison and rapport with Group operating companies.

Educated to degree level you may come from a variety of diverse business or professional backgrounds but are most likely to be a qualified commercial lawyer or chartered accountant. You will have a significant record of achievement in your chosen career, a thorough understanding of the workings of the financial services sector and may already be in a commercially oriented or regulatory role in a financial services environment. Personally, you must be able to combine foresight and firmness with tact and diplomacy and be a first class communicator.

Remuneration, which includes a comprehensive benefits package, bonus and share options, is for discussion but it is unlikely to prove a bar to suitable candidates.

Please send résumés, including a day time telephone number, to Torrance Smith, quoting Ref. TS798.

Coopers
& Lybrand
Executive
Selection

Coopers & Lybrand
Executive Selection Limited
Shelley House 3 Noble Street
London EC2V 7DQ
01-606 1975

International Banking

SENIOR ACCOUNT OFFICER to £30,000 + benefits

An active Commercial Loans Department, within an established European Bank anticipating further growth, require an additional team member, to strengthen the marketing effort directed towards U.K. companies.

Candidates, ideally aged early 30's, will offer a background of sound marketing experience relating to commercial and trade finance business and also be accomplished in client relationship/business development techniques.

For further details please call Gordon Brown or Frank Hoy or forward a curriculum vitae to the address below.

BAVE
RECRUITMENT
CONSULTANTS

5788 LONDON WALL
LONDON EC2M 5TP
TEL: 01 608 7001

Gordon Brown

AUSTRALIAN LAWYER

To assist in international insurance disputes we seek an Australian lawyer qualified for a minimum of 3 years to join the firm as a consultant on Australian law. Knowledge of London insurance market practices and an understanding of a European language would be an advantage.

Please send Curriculum Vitae to:
Daniel Gorman, Davies Arnold & Cooper
12 Bridwell Place, London EC4V 6AD

EXECUTIVE RECRUITERS Experienced and Trainees

We are a highly regarded global executive search firm (retainers only) with offices in London, New York, Hong Kong and Tokyo. The rapid expansion of our business in the major financial markets of the world has created the need for one experienced recruiter and two trainees in our London (City) office.

Candidates must possess a university degree (or some equivalent), a professional demeanour, exceptional communication skills (written and verbal) and a high energy level. Knowledge of the securities industry (shares or bonds) is highly desirable.

We offer excellent salaries, bonus incentives and generous benefits, as well as exciting long-term career opportunities.

Please reply with CV and/or letter in strictest confidence to:

Box AO685 Financial Times
10 Cannon Street, London EC4P 4BY

Our employees know of this advertisement.

OPPORTUNITIES IN INVESTMENT AND RESEARCH

The Investment Management Department of Mitsubishi Finance International Ltd., a wholly-owned subsidiary of The Mitsubishi Bank, Limited, is seeking to recruit two graduates to join its fast-growing investment management team.

The first position is for an **ASSISTANT FUND MANAGER - INTERNATIONAL EQUITIES**. The ideal candidate is likely to be aged under 25, will have 6-18 months experience of international equity markets (preferably in Europe and/or the U.S.), and the maturity to take on the responsibility for running funds at a comparatively early stage in his/her career.

A second graduate is sought to fill the position of **RESEARCH ANALYST - STRATEGY**. Ideally, we seek a graduate of Economics, Statistics or Operations Research with a thorough knowledge of optimisation techniques, aged under 25, and keen to combine a mathematical approach with investment decisions. Recent graduates are also invited to apply.

All enquiries with CVs in the first instance should be sent to:

Mrs V Lenciv-White,
Investment Department,
Mitsubishi Finance International Limited,
1 King Street, London EC2V 8EB

CUSTOMER DEALER

City **£20,000 + discretionary bonus**

A significant player in the world markets wishes to recruit a Customer Dealer to join an innovative team. You are probably aged 25-30, with some good experience, but you are keen to learn more!

☐ Challenge

to develop relationships with large UK Corporates and Institutional Investors in Europe and the UK.

☐ Variety

to be active in the money market and foreign exchange markets as well as being involved with Capital Markets products.

☐ Opportunity

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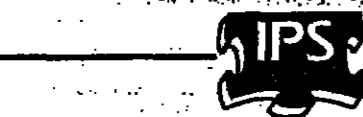
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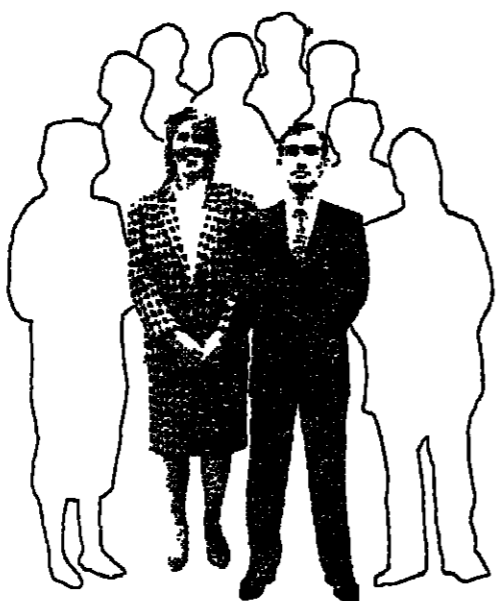
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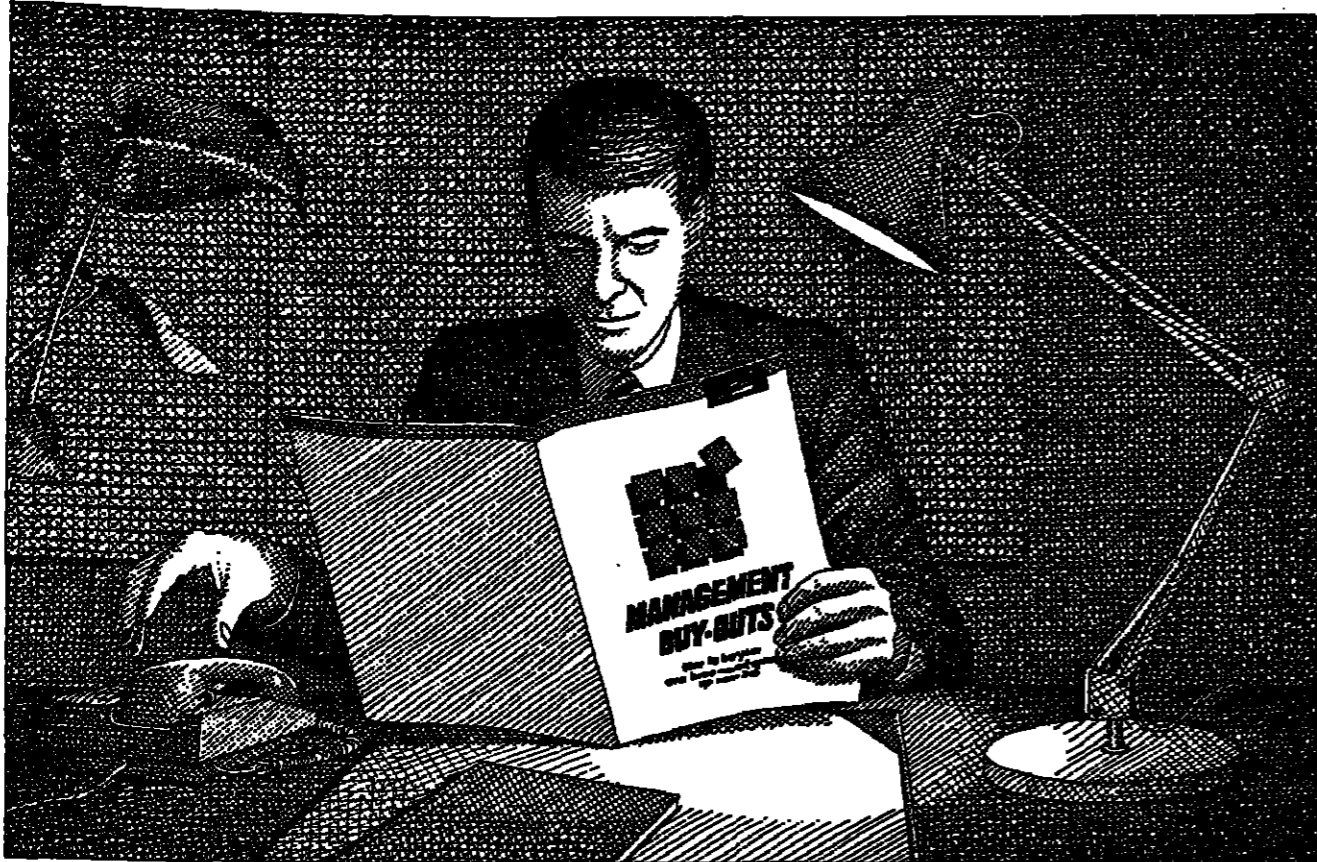
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BANKING & FINANCIAL APPOINTMENTS
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UK APPOINTMENTS

Senior Dowty Maritime Systems post

Mr F.J. Nockolds has become deputy chairman of DOWTY MARITIME SYSTEMS. He is succeeded as managing director of that company by Mr R.A. Ripper, previously managing director of Dowty Maritime Systems' communications division. Dr J. Bligh, executive director - engineering in the communications division, has been appointed its managing director.

Mr David Thackway succeeds Mr Mike Stokes as head of ICI (UK) FIBRES, the UK selling organisation formed by ICI Fibres in 1986. Mr Stokes has been appointed general manager of ICI's fibres organisation in Greensboro, North Carolina, with responsibility for the whole of the Americas. Mr Thackway was formerly sales manager - diamant yarns at ICI (UK) Fibres.

Mr Kenneth Cunningham has resigned as managing director of First Interstate Capital Markets in order to join MITSUBISHI FINANCE INTERNATIONAL as director of risk management and technical projects.

Mr Geoffrey Carter, a director of Trafalgar House, is to join the board of TR PROPERTY INVESTMENT TRUST.

Mr David A. Miller joins CASTELL SAFETY INTERNATIONAL as engineering director.

KAYE ALUMINIUM has appointed Mr Anthony Pincott its financial director.

CLUFF OIL HOLDINGS has appointed Dr Michael Ward as a director. He joined the group as managing director of its minerals subsidiary, Cluff Exploration, in April.

Mr Jeff Marsh has been appointed president of SAAB AIRCRAFT INTERNATIONAL, based in Windsor.

INTERNATIONAL CITY HOLDINGS has made the following senior management changes: The board of Fulton Prebon International comprises Mr Ritchie Hollinger, chairman (New York), Mr Angus Robertson (London) and Mr Haruo Kanba (Hong Kong). Mr George Shand is financial director. Mrs Angela Howarth, managing director of Fulton Prebon Sterling, has also been appointed chairman of ICH Financial and Technical Services in succession to Mr Ron Vallance who has become group chief executive. Mr Angus Robertson, previously deputy managing director, has been appointed chairman of Fulton Prebon Sterling in place of Mr

Robin Packshaw who has resigned because of his responsibilities as chairman of the ICH Group. Mr Paul Cumes has been appointed managing director of Fulton Prebon Sterling.

Mr Patrick Clatten has joined the board of MULTI CONSTRUCTION (SOUTHERN) as commercial director. He was commercial manager for Mears Contractors.

Mr James Nelson has joined the board of AIR CALL (HOLDINGS). He is a director of F & C Enterprise Trust and managing director of F & C ventures.

Mr Alan G. Tipper has joined CLIVE & STOKES INTERNATIONAL as a director. He was formerly a partner of Haldrick & Struggles.

Mr Bruce Maggs has become operations director at APOLLO METALS. He was a member of British Alcan's extrusion division.

Mr Howard Drummen has joined the partnership of stockbrokers KEITH BAYLEY BOGERS & CO as a partner in charge of corporate finance, the department he has managed for the last two years.

Mr Tom Rutson has been elected chairman of the ASSOCIATION OF BRITISH FACTORS. He succeeds Mr Michael Mahery, who has retired. Mr Leslie Blam, managing director of Century Factors, has been elected vice-chairman.

Mr Gordon Anderson has become an executive director of DUNEDIN FUND MANAGERS.

THE BM GROUP has made the following board changes at Hymac Group, which operates under the Benford division. Mr R. Geoff Barrell takes on the role of chairman of Hymac in addition to his role as chairman of Benford. Mr Graham Musson, managing director at Benford, becomes managing director of Hymac. Mr Alec Smith has been appointed engineering director in addition to a parallel role at Benford. Mr Barry Clark, product support director, and Mr George Robinson, manufacturing director, both remain on the Hymac board. Mr John Woffenden is appointed financial director.

Lord Marsh of Marnington and Professor Gregory Clark of Sofia University, Japan, have been appointed non-executive directors of CHINA & EASTERN INVESTMENT CO.

Mr David Hancock, managing director of APPLE COMPUTER

UK, has been made general manager of the Pacific business unit from January 1. Mr Keith Phillips, marketing director, will replace Mr Hancock as managing director on that date.

CROWN FINANCIAL MANAGEMENT has appointed Mr David Wells its finance director. He was previously executive manager in charge of administration.

Mr Marion Speyer, managing director of the REX STEWART GROUP's Manchester agency, has been appointed to the English group board.

J.W. SPEAR & SONS has appointed Mr Michael Sacher a director. He is president of Harbour International, a French games and toys company.

At CUNARD ELLERMAN Mr Redmond Lee has been appointed finance director. He was previously company secretary and group financial controller with Ellerman Lines.

SCAPA GROUP has made two board appointments: Mr B.W. Kelly joins the board as divisional chief executive of the industrial and papermill rolls section of Scapa Paper's industrial products group and Mr D.M. Dunn, previously at Newman Industries, has been appointed group finance director.

WANG EQUIPMENT SERVICES, the leasing division of Wang (UK), has appointed Mr Ian Harrison as general manager and director.

T & N has appointed Mr Andrew R.T. Watson as aftermarket director of Coopers Payen, its UK automotive gasketsubidiary, and Mr Bill Morrison has joined the board of T & N Technology, the group's central research and development facility at Rugby.

AAH HOLDINGS has made the following senior appointments within its pharmaceuticals division from November 1: Mr Peter Worling is appointed to the board of AAH Pharmaceuticals, the new holding company for the division, and becomes director responsible for all pharmaceutical wholesaling activities. Mr Worling was managing director of Vestric, the largest of the division's operating companies, in which he retains a directorship. Mr Les Southworth is appointed assistant director of wholesaling, and also joins the board of AAH Pharmaceuticals. He remains managing director of Hills Pharmaceuticals, a wholesaling subsidiary within the division. Mr David Taylor, marketing director at Vestric, is

appointed its managing director in place of Mr Worling. Mr Ken Vizard is appointed to the board of AAH Pharmaceuticals as divisional finance director, following a period as divisional financial controller. He remains financial director of Vestric and AAH Meditel.

SIMON-GALA has appointed Mr Allan Bruce as finance director.

NATIONAL INVESTMENT GROUP, members of the Stock Exchange, have promoted the following to group regional directors: Mr Christopher Chapman at the Wells office of Godfrey, Derby & Co. Mr Nicholas Greenwood at the Exeter office of Milton, Mortimer & Co and Mrs Katie Morris at the National Investment Group head office in the City.

Mr John Douglas has become sales director of REDFEARN FLEXPACK, the flexible packaging division of Redfearn. He was previously northern area sales manager of Smith Bros of Whitehaven.

At GROSVENOR SQUARE PROPERTIES GROUP, a part of Associated British Ports, Mr Peter Neilson, joint managing director, has decided to leave the company to pursue private business interests. Mr John Holt, formerly development director, has been appointed managing director of Grosvenor Square and will maintain responsibility for the group's development programme.

Mr David Hugh Laing Hopkinson has been made deputy chairman of HARRISONS & CROSFIELD.

Mr Greville Howard, chief executive of Keep Trust, has been made a non-executive director of AMALGAMATED FINANCIAL INVESTMENTS. He owns 1m shares in Amalgamated Financial.

J.F. DONELON & CO has appointed Mr Neil Miller as managing director. He has been a director for 15 years. This follows the appointment of Mr J.F. Donelan as chairman and chief executive of Tysons Contractors. Mr Donelan remain Donelon's chairman.

S.LYLES has appointed Mr Paul Rogan export director of its wholly-owned subsidiary S.Lyles Sons and Co.

Mr P.H.F. Ballard has become secretary of RMC GROUP in succession to Mr A. Jessup.

This announcement appears as a matter of record only



ASSOCIATED FRESH FOODS LIMITED

A NEW COMPANY FORMED BY MANAGEMENT HAS ACQUIRED THE MILK AND MILK PRODUCTS BUSINESS OF THE ASSOCIATED FRESH FOODS DIVISION OF ASDA-MFI GROUP PLC FOR

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Investors in Industry plc
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Investors

Charterhouse Development Capital Limited
CIN Industrial Investments Limited
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This transaction was arranged by

Investors in Industry plc

who also provided the mezzanine loan



INVESTORS IN INDUSTRY

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ASSOCIATED FRESH FOODS LIMITED

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£45,000,000

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Other participating Banks

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P R E S S F O R A C T I O N

US RETAILING

Deborah Hargreaves on US department stores' revised sales strategies

Retailers cash in on specialty sector

US SPECIALTY retail stores have fallen out of favour on Wall Street in recent weeks, but that has not stopped the large domestic department store chains in their drive to move in to the sector.

FW Woolworth has seen its stock price rise by more than 500 per cent since 1982, the highest rise over that period of a constituent stock in the Dow Jones Industrial Average. This has resulted from an extensive restructuring programme which has seen Woolworth shed its homely image and jump into the specialist retail camp.

In 1982, the company recognised the growing trend in US retailing which has led to the staggering growth of such specialist apparel chains as The Limited and Gap.

Last year, 65 per cent of the company's \$450m operating profit was contributed by its specialist outlets - which sell a range of products from footwear to picture frames - and this is expected to grow in coming years.

Mr John Landschutz, retail analyst at Mesrow Financial, believes Woolworth has excelled in moving into the specialist sector.

Until recently, the tightly-run specialist retailers were the darlings of Wall Street, keeping the big department stores on their toes by eating into their market share.

Analysts judge that the specialist retailers have taken a substantial share of business from the department stores in

recent years. But the big retailers have not taken it lying down and are trying harder to beat the specialists at their own game.

It wasn't until the beginning of this year that Sears, one of the industry's leaders, acknowledged the importance of the specialist sector when it set up a merchandising group charged with developing a specialist sector.

The group's merchandising group had seen its revenues growing at about 4 per cent in recent years - below the industry's 8 per cent average - and the company was keen to move into the specialist arena.

However, since the specialty group was established, the only purchase it has targeted is Eye-Care Superstores of America, for \$82.4m. And, after announcing the acquisition in May, the deal is still pending.

But Sears is proceeding cautiously, according to a company official who said: "We want to make sure we make the right choices. We're looking for companies that have a proven track record of success or long-range potential for success."

In fact, since the group was set up it has had a number of independent companies beating a path to its door and holding themselves up for takeover.

Mr Richard Nelson, analyst at Duff and Phelps the investment firm, thinks Sears has been surprised at the high prices put on the specialist retailers.

While the company says it is considering anything in the line

of products and services, Mr Nelson considers an apparel retailer would provide the best fit, giving Sears a high-street fashion outlet.

The company's specialty merchandising is also considering internal start-up of specialist outlets, a strategy which has worked well for Woolworth.

Sears says it is looking for its specialty group to make a significant contribution to profits in coming years and, if Woolworth is anything to go by, the specialist side will eventually catch up with general merchandising.

Mr Harold Sells, Woolworth's chief executive officer, expects the company's specialist outlets to generate 45 per cent of total \$1.1 sales by 1991, compared with 35 per cent of the total in 1986.

The specialist outlets account for 65 per cent of last year's operating profit, underlining the higher margins in the sector where each dollar of specialty store sales generated more than twice the operating profits produced by general merchandise sales.

And the company is still on the look-out for "small, emerging growth stores with a concept that is expandable on a national scale," Mr Sells says.

But this does not mean that Woolworth is turning its back on its core stores, he stresses. While it is not increasing the number of locations for the familiar general merchandise business, it is refurbishing and remodeling existing sites.

Indeed, the much-maligned department store could be

poised to make something of a comeback. Marshall Field's recent announcement of a \$110m revamp of its downtown Chicago store, to be completed by 1992, is proof of its faith in the department store sector.

Analysts also point to the success of the hybrid specialist department store such as the Seattle-based Nordstrom.

There are signs that the specialist boom is beginning to level off, although Wall Street's dissatisfaction with Gap and The Limited is expected to be short-lived.

The specialist apparel chains have been hit by higher prices from many of their Far East suppliers, which they have tried to pass on to customers.

However, although retailers are forecasting lower profits and a slower growth trend, first-half sales growth of around 18 per cent on last year's level is still way above the industry average.

The current emphasis in US retailing is on cost-cutting, Mr Landschutz notes. After a drop in US consumer spending and lacklustre September retail sales, retailers are offsetting flat sales margins with aggressive cost-cutting programmes.

"We're not in a bonanza period. It's dog eat dog all the way," Mr Landschutz says. But the specialist retailers are still in the vanguard and there seems little evidence that they are prepared to cede their hard-won market niches just yet.



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Tettamanti denies Sulzer takeover plan

BY OUR FINANCIAL STAFF

MR TITO Tettamanti, the Swiss financier, has made clear he does not want to take over control of Sulzer Brothers, the textile machinery and marine engine builder, but called on the company to support its stock price by making better use of its existing assets.

Mr Tettamanti said he personally has owned 3,000 Sulzer shares for about a year. He also said he had recommended friends and acquaintances to buy the shares, which were trading around Sfr3,000 compared with a book value of Sfr10,000.

Sulzer registered shares closed on Monday up Sfr50 at Sfr6,575. They have risen from Sfr2,850 at the beginning of the year.

Swiss press reports have suggested that Mr Tettamanti and other shareholders friendly to

him control as much as one third of Sulzer's total of 198,000 shares outstanding.

Mr Tettamanti said he had received a negative response from Mr Armin Baltensweiler, the company's chairman, to a letter he had sent in April to Mr Pierre Borgeaud, Sulzer's chief executive, suggesting ways in which the group might lift its stock price. He said the rebuff had led him to extend his contacts with other shareholders, who had welcomed his overtures.

Mr Tettamanti, a lawyer who is based in Lugano, said he supported any action that would contribute to the company's and stockholders' financial gain, but stressed that he does not intend to sell his shares outside Switzerland.

"I also do not want to take

over Sulzer personally, but will encourage it to use its existing strengths better."

An associate of Mr Tettamanti's declined to disclose the specific proposals he had made in his letter to Sulzer's management, but said the financier wanted his relationship with the company to remain friendly.

Sulzer executives were not immediately available for comment. However, the company has already taken a number of measures to protect itself against what it apparently views as an unfriendly approach.

Crucially, it has reduced to only 1,000 the number of shares which any single shareholder may have entered in the share register. It is not known how many of the shares bought by Mr

Tettamanti and his associates have been registered.

Landis & Gyr, the Zug-based Swiss electrical engineering group, announced yesterday that it had bought the comfort control operations of Mark Controls of Skokie, Illinois, for \$122m, writes William Duffell for in Geneva.

Mark Controls has accepted a \$27.50 a share offer from Landis & Gyr's US subsidiary at Stamford, Connecticut. A new company is to be formed, named Landis & Gyr Powers.

The new company will have an annual turnover of around \$180m and will be the third largest in the comfort control field in the US after Honeywell and Johnson. Comfort control equipment regulates heating, ventilation and air-conditioning in building systems.

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Peter Higgins, Director of Overseas Operations.

Photograph by Terry O'Neill.

Peter Higgins has £600 million of business under his wing, from Canada to Hong Kong, in local companies which are developing into "mini-GECs" – and which, he explains to **Robert Heller**, are run just like the maxi-GEC.

FOR Peter Higgins, "those who report to me are thousands of miles away. That stretches the line by one notch – I'm that notch." His "line" is the short one that connects The General Electric Company's Managing Directors with the Head Office in Stanhope Gate, which is where Higgins himself is based. But he will "report and account" for the activities of "the bloke who runs the business in Australia" just as the latter would for himself – if he were nearer. Collectively the "blocs" reporting to Higgins generate a vast turnover: £800 million or so. Like all other GEC Managing Directors, they are accountable for the growth and profit of their businesses – "people are left without excuses," says Higgins. "They are left responsible, and they have all the authority they need." His companies are thus free-standing firms which get much, but not all, of their sales from making or marketing products generated from GEC's British businesses: they are never mere passive outlets for the latter.

THE Higgins companies do, however, play a pivotal role in GEC's £12 billion of exports from the UK. "Very, very broadly" he says, "half a billion in exports are sold to the countries where we have a major presence." That presence is provided by the overseas businesses, and stretches back many decades – "The origins of most of mine are old Commonwealth companies: multi-product manufacturing and trading firms, right across the GEC spectrum. They tend to have the same relative standing in their own territories and markets as does GEC in the UK and their growth has kept pace with that of the Group as a whole." Some are like the Indian subsidiaries (which employ about 9,000 people) and depend entirely upon their own manufacture, usually to designs, and often with components, supplied by UK Group companies. At the other extreme, some of Higgins' charges have no

manufacturing activity at all. They are simply trading and contracting businesses "like the successful Hong Kong company, which is the largest electrical company in the territory."

The strong intention is that all should be successful. Asked how many are showing annual growth in sales and profits of more than 10 per cent, Higgins answers, "if they meet their budgets, all of them."

"Half a billion in exports are sold to the countries where we have a major presence."

As throughout GEC, the budgets are at the heart of the system, Higgins holds his budget meetings "on the spot if possible," in the country concerned.

He spends about a fifth of his time "on the road" involved in "discussion, enquiry, looking, listening, forming judgements, very often confirming." The visits are also valuable in enabling Higgins to "make people realise that nobody's beyond supervision" and to "get a feel further down the line."

As he explains, "part of the GEC ethos is that there are no closed doors." Higgins may deal directly with people who report to the local managing director. "I sometimes cut across – he knows, but it's important to feel the pulse." In any event, the local companies are themselves run on typical GEC lines, with responsibility and authority delegated down

the line. Higgins ticks off the main elements: "Enormous simplicity, very short lines of communication, no committees, no politics, the level of accountability is high and commensurate with freedom of action, rights and obligations are very clearly defined." Higgins, now 55, has had as close a view as anybody of that system's evolution. He was working for the old top-heavy GEC ("typical of British industry of the day") before the future Lord Weinstock arrived on the scene.

The application of Arnold Weinstock's ideas to what had been the three huge, sprawling businesses of GEC, AEI and English Electric was an experience that, says Higgins, he would gladly have worked through for nothing. One central theme of those years, that "the route to growth is through efficiency," still animates the company, along with the fact that "decisions are quickly available. Nobody is allowed to be unavailable." That imposes evidently large demands on somebody who may be wanted at any time by any of a dozen managing directors spread around the globe.

The key, of course, is the quality of the managing directors, which "has certainly become more

"People are left responsible and have all the authority they need."

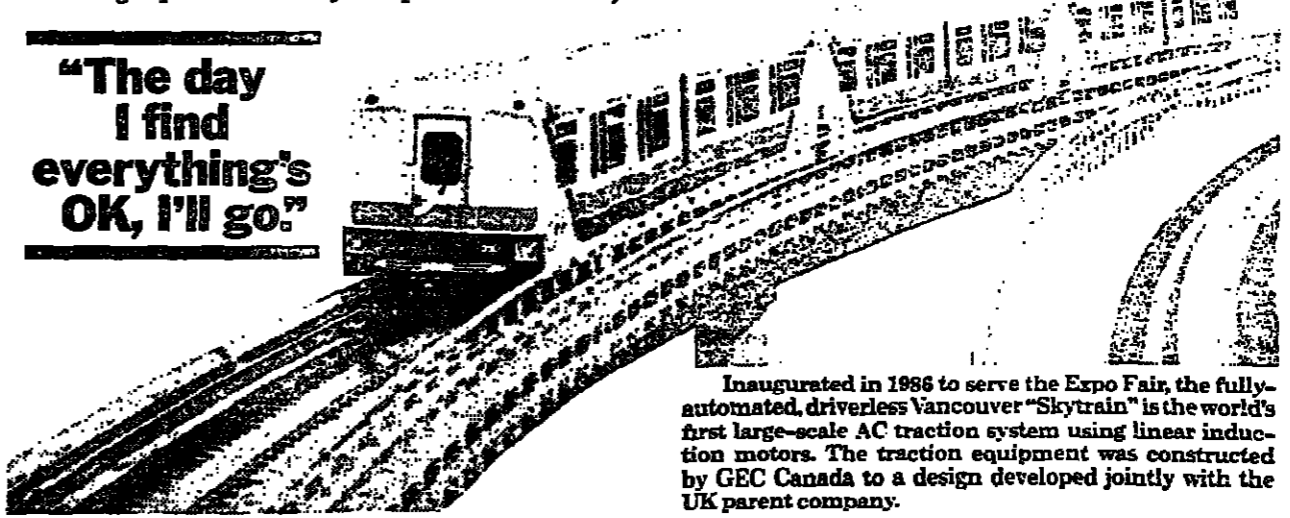
professional." Higgins associates this partly with "the demise of the old style expatriate." Today there's "only one country left where we have an expatriate MD": but Hong Kong's run by a Chinese, Singapore by a Singaporean, India by an Indian, and so on.

In several of the countries, the companies are pursuing developments of their own; such as data communications in Australia, industrial drives in New Zealand, traction inverters in Canada. The result is that, where historically the technology flow was all outwards from the UK, there is now increasing two-way traffic.

HIGGINS' role includes, very importantly, selecting the managing director (he also picks the finance director) who can achieve the necessary entrepreneurial success out on his geographical limb, while maintaining financial control. "You need a special guy, or a talent you can make special." For preference, the appointee will be somebody "who's coming up in the company: if not, it's a reflection on me." Higgins reckons that the product knowledge, and experience of the system gives a GEC manager a "tremendous advantage" in fitting in.

The system necessarily imposes some restraints. No managing director can forget, any more than Higgins, that he's "an employee of GEC with an overriding responsibility to shareholders. He must always take decisions in the best interests of the group" (for obvious example, if there's a question of handling a product directly competitive with GEC).

"The day I find everything's OK, I'll go."



Inaugurated in 1986 to serve the Expo Fair, the fully-automated, driverless Vancouver "Skytrain" is the world's first large-scale AC traction system using linear induction motors. The traction equipment was constructed by GEC Canada to a design developed jointly with the UK parent company.

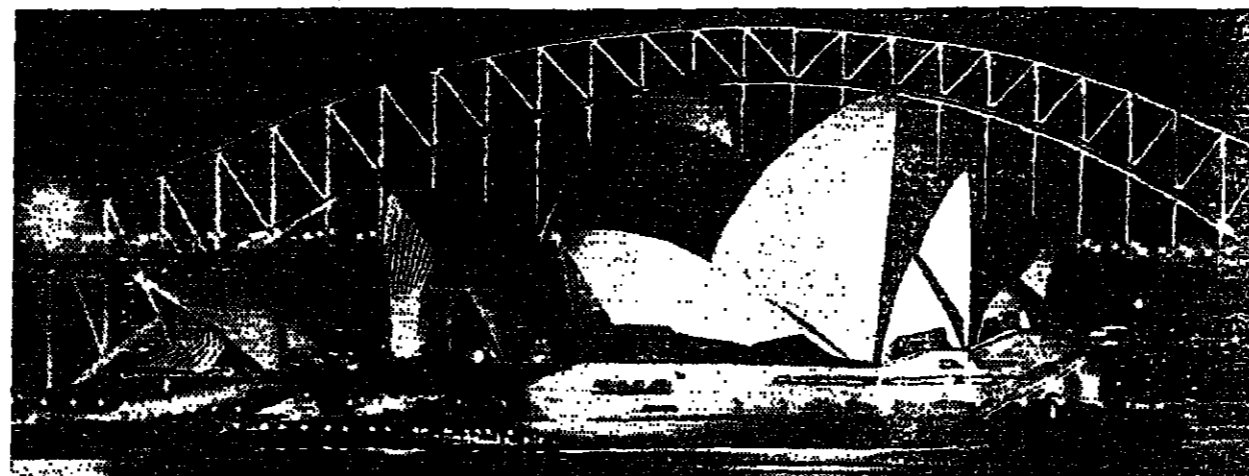
the UK company's huge 'Starvision' public TV screen which has an important role to play in the field of mass communication. Business with China will grow." So, in Higgins' confident opinion, will the overseas companies as a whole. He sees them developing into "mini-GECs" – most would represent most of GEC – and changing in size and shape as they develop. In that too, they will closely resemble their bigger brothers in Britain: "It's not a static group."

Robert Heller is Editor-in-Chief of Finance Magazine.

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GLOBAL BRAND marketing is not a novelty in Jacobs Suchard's business. The Swiss coffee and chocolate group competes in a market where companies like Mars of the US have successfully promoted goods worldwide for many years. Britain's Rowntree has recently launched an ambitious international advertising campaign for its After Eight mints.

Even so, Jacobs Suchard could hardly provide a better illustration of the importance for European companies of building a continental base for their global ambitions: 90 per cent of the Swiss company's sales (SF5.2bn, \$3.5bn) are in Western Europe and the company recognises there is further potential in the region.

It does not think these possibilities will be much affected either way by the creation from 1992 of a single, barrier-free market in the European Community on whose fringes Switzerland lies.

The company's strength lies in its brands, Milka, Suchard, Toblerone, Tobler, Cote d'Or and, for coffee, Jacobs. To capitalise on these assets, we have to exploit them worldwide," says Charles Gebhard, senior group vice president. "We cannot just focus on 1992 in Europe, we need global marketing and advertising."

And as a reminder of its global ambitions Gebhard points to the group's completion at the beginning of the year of its acquisition of the US confectionery business, E.J. Brach, for \$750m.

Klaus Jacobs, the executive chairman and the driving force behind Jacobs Suchard's expansion, has focused the top management team in Zurich on an idea, Vision 2000, of what the group can look like by the turn of the century. His concept is shaped by the removal of trade barriers within Europe but an even more profound influence has been a decision taken in 1982, when the group was formed from the merger of the Jacobs coffee business with Interfood, the parent of the Suchard and Tobler chocolate companies.

It was decided then that Jacobs Suchard had to become the lowest cost producer and marketer it, as a David among Goliaths, it was to secure a place in the harshly competitive confectionery business. Because the Goliaths - Mars and Nestle - operate globally, lowest meant lowest worldwide. And the inevitable corollary was worldwide marketing.

Other elements contribute to Jacobs Suchard's global image of itself. One is what Jacobs calls the hybrid consumer, the customer increasingly common in rich countries who buys speciality products on one shop-

target
europe

Jacobs Suchard

ping trip and "no frills" products on another.

A hybrid can drive a Jaguar and buy petrol at a cut-price self-service station, will wear cheap jeans with \$250 Gucci shoes, shops for basic foods at a supermarket, but can afford to treat himself or herself to expensive chocolates or coffee. Serving the hybrid has become a major force behind Jacobs Suchard's product development and marketing efforts. And the hybrid is a global phenomenon.

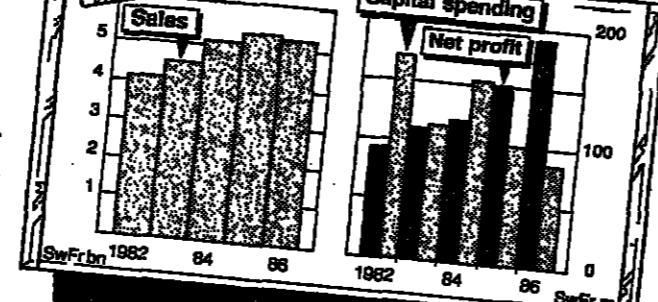
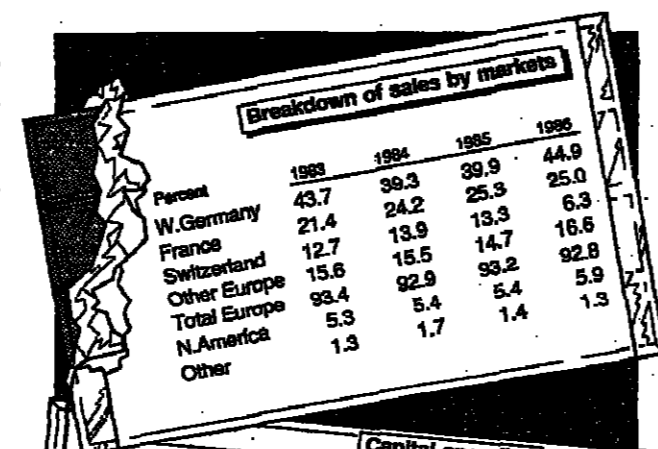
One objective pushing the group towards global planning is the perceived need to balance commercial risks and to counter market fluctuations by building up a North American business. Another is the aim, by being present on several financial markets, to multiply options for raising capital, in order to meet possible expansion possibilities.

It is evident that in pursuit of its lowest cost objective Jacobs Suchard has profoundly changed the style of its European operations over the past five years - a move which may well have given the Swiss group a competitive advantage on the emerging single market.

Since 1982 the group has invested heavily in rationalising production and exploiting cross-border trading opportunities. Production of individual brands has been concentrated in fewer factories, re-equipped with more highly automated machinery to obtain economies of scale. Rationalisation of manufacture has been followed by decentralisation of management, to keep profit responsibility closer to the market and to increase flexibility in promoting brands.

A big investment has been the SF120m spent on a new factory at Bern to produce Toblerone and other Tobler products for the whole European market. In West Germany the Tobler factory at Stuttgart was closed down and equipment transferred to Loerrach, just across the border from Basel, turning it into the main producer of Milka products, exporting to Belgium, France and Britain.

Employees' reluctance to move to new jobs has sometimes caused problems. Only three of 150 blue-collar workers made



redundant when the Stuttgart factory was shut moved to Loerrach, although Jacobs Suchard wanted to keep people experienced in the use of the transferred machinery. Locally recruited staff had to be trained.

Four years before the new Bern factory came on stream, the 500 at the old plant were told that it would employ only 300. Retirement from a fairly aged staff helped but, as the transfer date approached, some 50 superfluous employees remained on the books.

A generous offer of severance pay, well above the legal requirement, was made to 90 staff, mostly married women with husbands in jobs. More than 50 accepted the offer.

In France the old Paris factory was shut down and production concentrated at Strasbourg, where for an investment of some SF20m-25m the plant was extended and modernised. Strasbourg makes Suchard chocolate, pralines and some Milka products.

Milka is the umbrella brand

In the first of a series on trans-European corporate strategies, William Dufforce looks at the approach adopted by Switzerland's foremost confectionery manufacturer

Learning a common language



Jacobs Suchard products now range from Toblerone to the Belgian Cote d'Or chocolate

in the 1970s, as customs barriers between EC countries began to fall, but 20 years ago the principle was still that a factory served its national market with a full range of Suchard and Tobler products. There were as many different shapes and formulations of one chocolate brand as there were countries manufacturing it. The new pattern, born from concentration of production and coordination of the distribution network, became fully established only in the mid-1980s.

Rationalisation of production has been applied principally to the global brands. The group also makes what it calls "core local products" and "local excursions" to fit particular national or local tastes. Thus, the production programme for each factory is not completely streamlined but enough for Gebhard to envisage the possibility of round-the-clock manufacturing. The industry has to work at the idea, he says. For the time being differing national labour rules apply.

Manufacture of cocoa liquor, obtained from the first processing of the cocoa bean, originally took place at numerous points in Europe. These have been reduced to five units and the management believes it can eventually make do with two or three.

Production of "industrial chocolate", a semi-finished product delivered by truck in liquid or block form all over Eu-

rope and used for all sorts of chocolate coatings - to cover biscuits, ice-cream or in the making of pralines by local chocolate makers - has been concentrated mainly in Belgium. Output at the Callebaut subsidiary there has doubled since 1981 following a substantial investment.

Coffee, which until the company's latest purchases on the confectionery side made up some 60 per cent of Jacobs Suchard's turnover, is a simpler business than chocolate. The investment in fixed assets is smaller and processing is limited practically to blending, roasting and packaging.

Nevertheless volume gives comparative advantage and Jacobs Suchard has been concentrating production. One large plant in Germany supplies Denmark and, partially, other countries. France, where the group owns the Jacques Vabre label and has a major stake in Grand Marnier, is heavily supplied from Belgium.

Rationalisation of the confectionery business throughout Europe has been accompanied by the development of an entirely new management system. Initially Jacobs applied "matrix law" to impose the changes in production and marketing but this has been followed by the "unlayering" of the management structure and the decentralising of responsibilities.

At the start the group was con-

ventionally organised into a hierarchy of business units, divisions and countries which reported to managers at head office. "Unlayering", assisted by the introduction of computerised reporting, was aimed at doing away with bureaucracy and "red-tape" and increasing scope for entrepreneurship at the front line. A whole second level of management was eliminated, so that contact is now direct between the 50-strong head-office unit and the general managers responsible for all operations - coffee as well as confectionery - in each country.

Another new idea has been the introduction of "global brand and marketing sponsors". These are people whose role is to coordinate worldwide the manufacturing and marketing of a particular brand. Sponsoring is not their only job. Most are based at lead manufacturing units for their brands and combine general management responsibility for chocolate or coffee businesses with their sponsoring function. The German general manager for chocolate coordinates the marketing of Milka products worldwide.

In Zurich the group has a fully international management team, kept deliberately slim. In addition to Swiss, it has German, French, Dutch, English and American members. There are no Swiss in senior management positions in Germany,

France, Austria or Britain but managers are interchanged. An Austrian is general manager in Spain, a Swiss runs one Belgian business unit and a German heads an Austrian division.

Because of its fast expansion and its philosophy of running a tight top management Jacobs Suchard does not have a big management reserve. Its acquisitions on the whole have been well-run concerns and existing managers have been kept on. Executives are sent from one country to another when their experience or special skills are needed.

English is the corporate language. All formal meetings at Zurich headquarters (where until the recent arrivals of a British native English speaker) are conducted in it. Fluency in English is a "must" at the top two levels of group management and has already percolated to lower management strata, according to Gebhard. Managers posted outside their native countries are expected to learn the local language; courses are paid for.

An ambitious four-week corporate training programme started in 1985 is conducted in English: again the company pays for a course if it is needed. Originally some 600 staff were expected to take the programme but this figure has been raised substantially after the acquisition of Brach and Cote d'Or.

Running a European (or global) business from Switzerland has far more advantages than drawbacks in Gebhard's view. He enumerates its central location, free market climate and the stability of its currency, economy and political climate. The only drawback he can see is that some group products made in Switzerland do not enjoy full exemption from EC customs duty. That, he says, is a matter on which "Swiss negotiators need to act."

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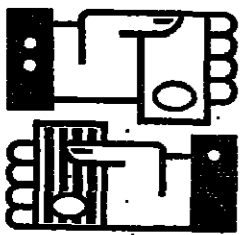
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FINANCIAL TIMES
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SECTION III

FINANCIAL TIMES
SURVEY

The buy-out has caught the managerial imagination. Merchant bankers and venture capitalists, too, have

been learning fast. With the recent MFI deal, buy-outs in the UK have moved into a different league. But will the bubble burst? Report by Charles Batchelor

Taking action to cut free

GO BACK 10 years and the buy-out was a little-known and risky option which corporate finance people had great trouble explaining to the average manager.

Now, complains one leading deal-maker wearily, executives turn up with business plans which have already been honed by their accountants. They expect the money people to submit to a "beauty contest" before giving the mandate.

Few corporate finance techniques have caught the managerial imagination so successfully. From just 13 UK deals worth only a few million pounds recorded in 1977, the numbers rose to 261 deals worth £1.2bn in 1986.

The buy-out wave continued during the first nine months of 1987 with 125 deals worth £1.36bn being recorded, but earlier this month the buy-out moved up a gear. More than 350 managers from MFI, the furniture retailing division of Asda-MFI, staged a £715m buy-out of their company.

This deal was four times larger than the £173m buy-out of Mardon Packaging, a subsidiary of BAT Industries, now renamed Lawson Mardon.

Even so, Britain has had nothing to match the size of the leveraged buy-outs common in the US, where Seatrice Companies, the food and consumer

products group, was acquired in a record-breaking \$6.2bn deal in April 1986.

But these transactions differ significantly from their near name-sakes in the UK. They are usually led by an investment bank intent on breaking the company up for the maximum resale value. Industrial managers play only a minor role in the US leveraged deal.

While the big deals catch the headlines on both sides of the Atlantic, it is the smaller deals of anything from £500,000 to £5m in the UK which are working a significant change in the corporate scene.

So popular has the buy-out become in Britain that 3i (Investors in Industry), a leader in the field, has staged road-shows around the country to meet the demand for information from would-be buy-out teams.

Spicer and Pegler, the City accountants, have launched a buy-out Freezone line to take calls in confidence from managers considering the move. Gimicky though this sounds, Spicer says its phones have been very busy.

It is not just the management teams which have been learning fast. The merchant bankers and venture capitalists who set up the deals have been developing their skills.

Mr Roger Brooke, chief executive of Candover Investments,

one of the largest in this field, says his team can put together a fully-scripted buy-out plan in 24 hours with the help of computer models - assuming that the management's figures are correct. The reasons for the popularity of the buy-out are several. The takeover boom of the past five years has created companies with ill-fitting businesses to sell, while other long-established companies are slimming down to their core operations.

Many bankers, chastened by problems with Third World loans, are investing their money closer to home. An estimated £5bn worth of funds is available to finance UK buy-outs, four times the actual investment in 1986, according to some estimates.

Finally, the change in the political and business climate has made ownership an attractive option for managers previously content to be employees. But do buy-outs really represent a new willingness to take commercial risks? Some critics accuse the venture capital industry of backing buy-outs as a safe option and of neglecting riskier start-ups and early stage financing. Most buy-outs, after all, involve established companies with good cash flow and seasoned managers.

The very success of the buy-out has prompted fears that it may be a bubble which could burst by an economic downturn. Fears presently centre on the highly-leveraged US buy-outs, rather than on their more conservatively-financed UK counterparts. But some deal-makers worry that the deals on this side of the Atlantic are becoming less prudent.

"Buy-outs in the US could become the bankers' next Mexico or Brazil," warns 3i's Mr Derek Sach. "We see deals which are completely dependent on assets being sold off after one or two years. If there is a slump in the market or a rise in interest rates they are dead."

Some UK bankers fear that the volume of US money moving into the City of London will lead to similar strains in Britain. With more institutions competing for deals, prices are forced up, burdening the newly bought-out company with a mountain of debt.

But others are more sanguine. Candover's Mr Brooke acknowledges the potential danger but points out that even in the US only a small number of buy-outs have got into trouble. The Bank of England is known to keep a keen eye on any move to highly-leveraged transactions in Britain.

For the moment, British buy-outs are carried out on a fairly conservative basis, typically with a debt to equity ratio of 3 or 4:1 compared with 8 or 9:1 common in the US.

Despite these reassurances, the nature of the UK buy-out game has changed fundamentally over the past few years. Starting out as a means of disposing of poorly performing subsidiaries - which were often sold at a discount to net asset value - the deals now usually involve successful but ill-fitting operations. These now tend to

be valued not in terms of asset cover for any loans but on a multiple of past and projected cash flows.

Growing competition on the part of the financiers for the deals available has pushed up prices and forced the money people to devise new methods of making the transactions possible. Mezzanine financing, a US import, has been introduced to bridge the gap between the price of the deal and the value of the underlying business.

It takes the form of a high-yielding loan capital, ranking after secured loans but ahead of equity in the event of the company failing. To compensate the mezzanine lenders for the greater risk that they run, mezzanine funds typically earn interest a couple of percentage points higher than that applying to secured loans.

Despite the continuing rapid growth of buy-outs in recent months, management teams have been running into increasing competition from trade buyers. The strength of the stock market has enabled quoted companies to issue their own highly-rated shares to finance takeovers at prices which cannot be matched by the management teams.

"For every deal we do, we lose one to a trade buyer," says 3i's Mr Sach. "They can pay 20 to 30 per cent more because of the benefits they will get from rationalising the business."

To counter this threat the buy-out finance teams have developed the "bought deal" to give managements time to raise the funds. One bank or finance group will take the complete deal on its books and syndicate it later to other institutions once the contracts have been signed. Competition from the trade buyer has meant that many recent buy-outs have succeeded only because the buy-out method had a special feature which appealed to the vendor company.

A buy-out may be preferable because the vendor wants the deal done quietly - that is without having teams of outside accountants crawling over its factories and its figures - or to get it done quickly, before an AGM or a year end. Or it may be that the company being sold contains both good and poor

operations which would be unattractive to a trade buyer as a single package. Most financiers agree the management teams have become canny in structuring the deals in their own favour. Competition to provide funds has allowed managers to increase the percentage stake they can expect to take in the bought-out company. In some cases, managements have become greedy, the bankers claim, making it more difficult for financiers to make a decent return.

This has prompted a move out of the overheated UK buy-out market into the Continent, where the technique is only now starting to catch on. Schroder Ventures, Baring Capital Investors, 3i and Citicorp Ventures are among those to be actively promoting buy-outs on the Continent. France appears to offer good prospects but managers in Germany have proved very cautious, placing security and prestige of working for a large company above the promise of higher financial rewards from a buy-out.

Japan, too, has proved a difficult market to penetrate but British and American buy-out specialists are attempting to break in. However, Japanese companies can bring strong commercial and personal pressures to bear on executives who consider this option and so far buy-outs have appealed only to a small number of Japanese managers with lengthy US business experience.

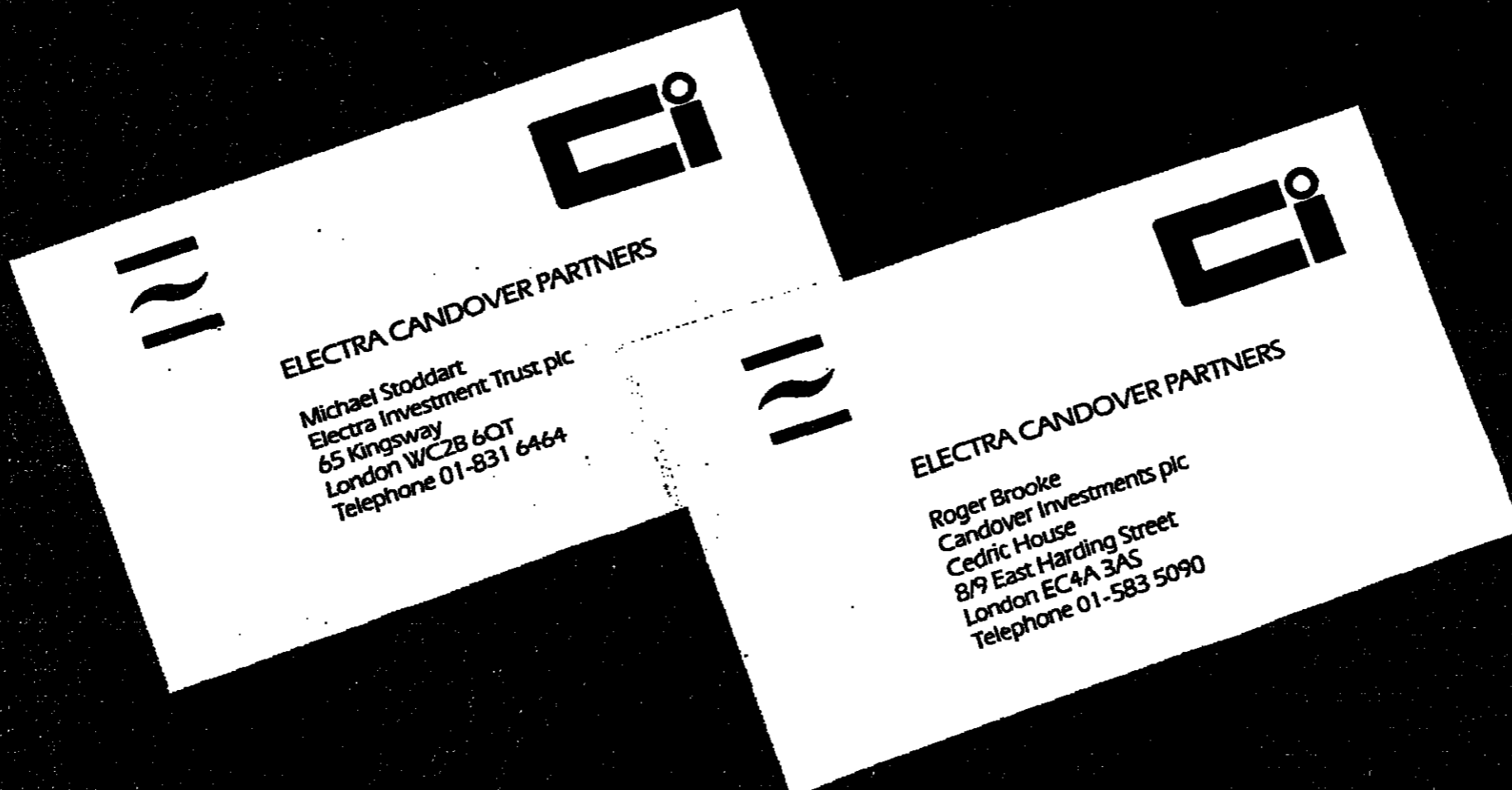
Some specialists have been promoting alternatives to the buy-out. The buy-in is being heavily marketed as a way of bringing new management into under-performing companies. Instead of a company's own managers buying it from the parent group, an outside management team is brought in. Sceptics point out that finding new managements for lame duck companies is nothing new. But there are signs that the bankers are attempting to identify and assemble potential buy-in teams of managers in a more systematic way.

As the MFI deal illustrates, there is a lot of life left in the management buy-out. But even if it did falter, the bankers are working hard on its successor.

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Either card will do . . . if you have it in mind to negotiate a major divestment or buy-out. Electra Candover Partners are managers of £260,000,000 committed by over thirty British and overseas institutions specifically for the funding of large management buy-outs based in the United Kingdom



Corporate principals management proposers or professional advisers are invited to consult with the Managing Partners

Charles Batchelor gives a practical guide to the pitfalls

How to stage a buy-out

DESPITE THE increasing frequency of management buy-outs over the past few years, most managers will only carry out one deal of this kind in their working lives. The difficulties they face are considerable. First, they must start their discussions with each other and with their financial advisers, in conditions of secrecy. This is to avoid alerting their own senior management to their plans, as well as possible rival bidders. Group boards have been known to react negatively to proposals from a divisional management team for a buy-out of part of a company.

Second, the increasing popularity of buy-outs has meant that the vendors - the parent company or the controlling family - know that they can strike a hard bargain. This is in contrast to the early years of buy-outs when many companies were content to dispose of troublesome subsidiaries to their managements at a knock-down price.

Intense competition for would-be buy-outs has helped to push up average prices. Management teams face rival offers from trade buyers and from buy-in teams of professional managers backed by competing City institutions.

Managers keen to acquire ownership of the companies they run must therefore plan their buy-out campaigns with care. Buy-outs can fail for a variety of technical reasons - legal, taxation or financial. But according to some experts, the most common cause is a personality clash and the inability of the two sides to communicate effectively.

Managers face the difficulty of negotiating their own independence with their bosses. They may run the risk of the sack for suggesting a deal and if negotiations break down at any stage their career prospects within the parent company may be harmed.

This problem can be partly avoided by appointing independent financial advisers to lead the negotiations. Their presence will take some of the heat out of the talks and they will be less concerned about offending the boss.

The smaller the buy-out team the better. A group of between two and five people is believed by many to be the best. This cuts down the possibility of disagreements within the team and makes for quicker negotiations. The managers should establish at a very early stage whether, in principle, a buy-out is feasible. If not, this will save their

own time and avoid hefty bills from the professional advisers. Once the buy-out team has established that it makes sense to get down to detailed planning, it should pay great attention to drawing up a detailed and realistic initial proposal.

The merchant banks and venture capitalists who back these deals see hundreds of proposals a year. To simplify their task they will tend to reject any poorly-prepared proposition and those which are not based on realistic assumptions. Proposals should describe the business involved, the backgrounds and experience of the management team, the financial history of the operations to be bought and give realistic forecasts of future performance.

Proposals should also be sure that the advisers are completely independent of both the vendor and the financier. There is a danger, for example if the same accountants act for the team and for the financiers.



But even more important than the business concerned, is the quality of the management team. Financiers never tire of saying that they would rather back a good management team in a difficult industry than a poor team in a sector with gleaming prospects.

The managers must convince the money people of their motivation and personal qualities. They must persuade the financiers that they can make the leap from being employees - however senior - to owners of their own business.

Choosing financial advisers is an important step. The popularity and profitability of many recent buy-outs has brought many new players into the field. Not all of them have the experience they claim, so managers should seek the advice and personal recommendation of others who have already completed a buy-

out. The financiers should be brought into the negotiations as early as possible. This may make for a small increase in fees but the advantage of having professional guidance from the start can save money in the long run. The managers should, however, make sure they determine the likely cost of advice in advance and the likely size of the bill if the deal does not go through. Abortive talks could face the managers with large personal costs.

The managers should make sure that the advisers are completely independent of both the vendor and the financier. There is a danger, for example if the same accountants act for the team and for the financiers.

That should make sure that a reasonable balance is achieved. They should also be aware of any additional financial conditions imposed by their bankers against the company's assets.

The management team must be prepared for a long haul. Deals normally take from nine to twelve months to complete though some have taken up to two years to put together. At one moment the negotiations may appear to be going smoothly; at the next they may stall and the whole deal may look in jeopardy.

The managers should attempt to keep the negotiations moving forward all the time. Although they will depend to a large extent on the advice of the professionals, they should not let them dictate completely the progress of negotiations.

Some experts advise managers to consider using the threat of a walk-out to improve the terms of the deal or to ward off rival bidders. This can be particularly effective where the business consists mainly of the managers' professional skills. They must be prepared to put their threat into effect, however, since the vendors may call their bluff.

The growth of the management buy-in has increased the demand for professional managers able to parachute into a troubled company. Managers with sufficiently impressive credentials should therefore have no problem finding another outlet if their own buy-out attempt fails.

Financing the deal is all-important. While the managers may be tempted to reduce their borrowing requirements as much as possible to cut interest charges, they should make sure they have sufficient funds to carry out their plans. Borrowing too little could force them to refinance their business at an early stage or could even mean the venture fails. They should choose the source of finance carefully, but avoid approaching too many financiers since this may make their proposal look shop-soled.

ment's equity stake to the performance of the company. Under such arrangements, managers usually start with a basic holding which increases if targets are met. Some, however, allow for a decline in the manager's stake if goals are missed.

If the financing of the deal is syndicated to a number of institutions, the managers may find that differing and possibly conflicting demands are being made on them.

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Investors

Fewer deals financed by just one institution

Total Number and Value of Buy-Outs 1967-1986

Year	No.	Com. No.	Value (£m)	Com. Value (£m)	As % of Total Value
1967-76	43	43	n/a	n/a	n/a
1977	13	58	n/a	n/a	n/a
1978	23	79	n/a	n/a	n/a
1979	52	131	26	26	0.50
1980	107	238	50	76	0.47
1981	124	382	114	180	0.92
1982	170	532	285	455	1.56
1983	205	787	515	770	1.54
1984	210	947	415	1,185	1.98
1985	229	1,176	1,150	2,335	5.02
1986	281	1,437	1,210	3,545	4.84
1987 (9 months)	125		1,380		

Source: The Centre for Management Buy-Out Research, Nottingham University

and Charterhouse Bank, Banque Paribas, Chemical Bank, Credit Agricole, Industrial Bank of Japan, National Westminster Bank and Standard Chartered Bank acted as lead underwriters. The deal was then put into application.

One reason for the increased number of investors is the increased size of the deals being organised. 31 estimates that the median size of the deals it is involved in is probably £50-70m these days.

where one or two institutions finance the whole deal and then sell it on to other groups. An example last year was Technitron which was underwritten by 31 and Citicorp Venture Capital which then syndicated the deal with 14 other investors.

The administrative problems involved in putting together such deals encouraged some groups to set up specialist buy-out funds, backed by substantial slugs of capital. In late 1985, Schroder, Citicorp and Electra Caudover established funds which had the potential to back buy-outs to the extent of £1.7bn.

That led some to speculate

funds have been outbid when financing buy-outs by publicly quoted companies using highly-rated paper. As a result, one or two of the specialist funds were initially slow to find homes for their money.

There was a further problem for the new funds - as the cost of putting together a buy-out increased, so the potential for profit reduced. A combination of bigger and less profitable buy-outs might spell disaster in the long run.

Venture Economics report says that some of the previous successes have "undoubtedly led to unrealistic expectations on the part of some of the insti-

tutions investing in buy-outs for the first time".

But enthusiasts for buy-outs are unabashed. They point out that the size of the UK buy-out market is still well short of that in the US. And as the technique is becoming more widely accepted, managements which had previously not considered the buy-out option are now coming forward. "We're seeing some very good management teams these days," says Ewan McPherson of 31.

However, the institutions have been forced, in some cases, to battle against excessive demands on the part of managements. One response known as ratcheting - involves trying management down to a small initial equity holding and only allowing it to increase if they meet certain profit targets.

One widely-held expectation was that the US banks who are used to backing highly-leveraged deals - with a lot of debt and little equity - would move in and dominate the market. But with the exception of Bankers Trust and Citicorp, the Americans have not yet become significant players.

As the Venture/MBO Centre report says: "Although several major US banks are now active in sponsoring UK buy-outs, they mainly act as providers of mezzanine finance or other forms of subordinated debt."

The trend this year has been to establish funds to finance buy-outs in continental Europe. Baring Capital set up an Ecu60m (£41m) fund in September and 31, Caudover and Schroder Ventures have all established European networks.

The move overseas is a response to the growing tendency for buy-outs to include an international element. Many UK deals have been buy-outs of divisions of overseas companies - Wickes, for example - and large deals often involve companies with multinational operations.

With several different legal systems and tax regimes to battle through, the need for sponsoring institutions to have international expertise becomes all-important.

"Trends in UK buy-outs by Venture Economics and the Centre for Management Buy-Out Research, available from 14 Barley Mow Passage, London W4 4PH

Philip Coggan

Listed below are just some of the significant deals County NatWest Ventures has either led or underwritten so far this year.

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EXPANSION CAPITAL

MAGNUS DEVELOPMENTS
£2.5M
EXPANSION CAPITAL

CAPITAL GROUP
£1M
EXPANSION CAPITAL

MARCH MEDICAL
£3.5M
MANAGEMENT BUY-OUT

BULLHAY CHEMICAL HOLDINGS
£11.5M
MANAGEMENT BUY-OUT

THE HOUSE OF CLARKS GROUP
£3.6M
MANAGEMENT BUY-OUT

RING SYSTEMS
£240,000
MANAGEMENT BUY-OUT

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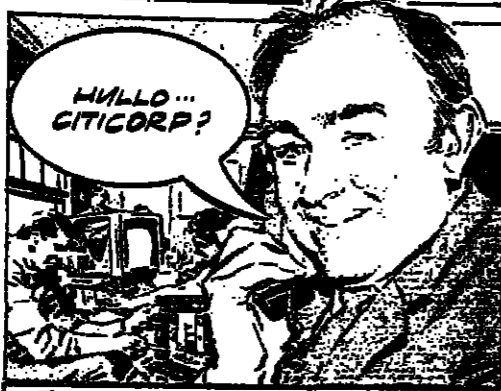


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THE ENTREPRENEURS

EARLY STAGE

THE BRANCHCHILD OF EX-IBM SALESMAN GEOFF HENDERSON IS MAINSTAY COMPUTER COVER.



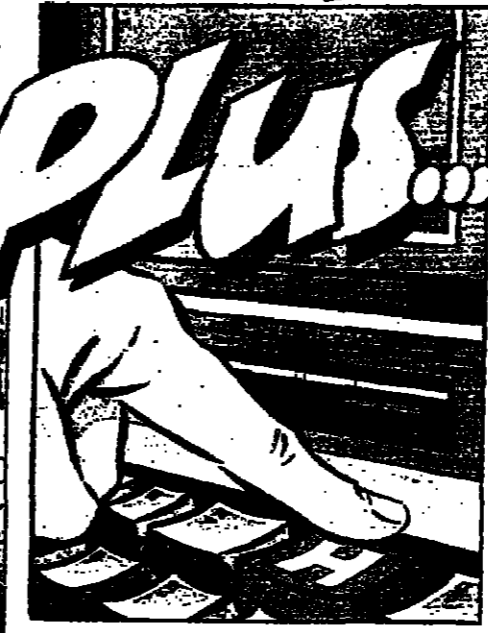
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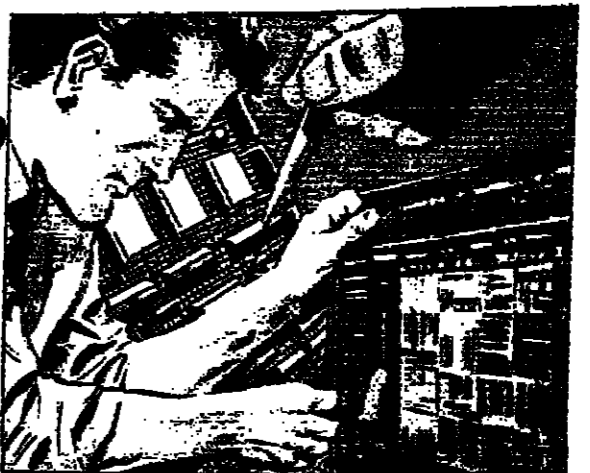
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SUPPLYING PARTS, UPGRADES AND COMPLETE MACHINES... 80% FROM OWN INVENTORY, BUT ALSO DRAWING ON IBM.



...A HELP-LINE FROM SOFTWARE-TRAINED HARDWARE ENGINEERS.

-ART: FRANK LANFORD-



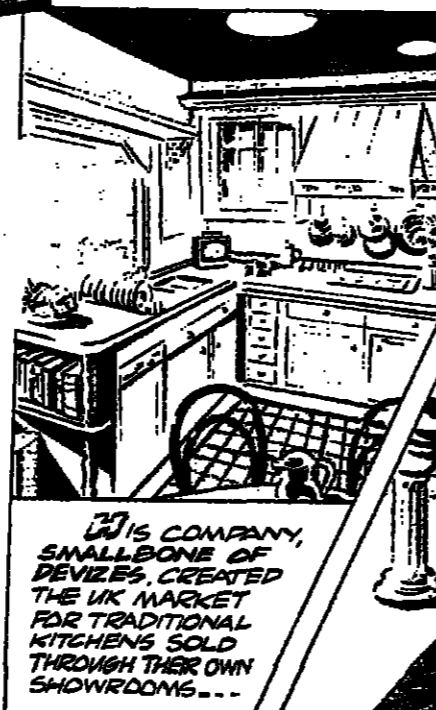
TODAY, 175 EMPLOYEES IN 6 UK OFFICES AND 3 ABROAD, SERVICE ALL IBM-COMPATIBLE MAINFRAMES, MINIS, MICROS AND PERIPHERALS... MAINSTAY IS NOW THE LEADING INDEPENDENT MAINTAINER OF IBM MINI COMPUTERS IN EUROPE!

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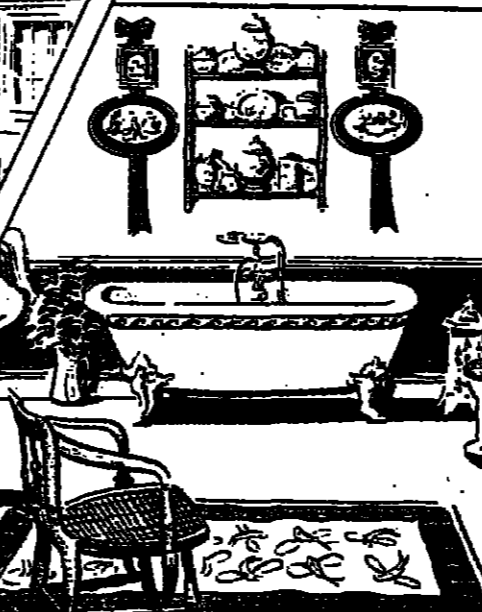


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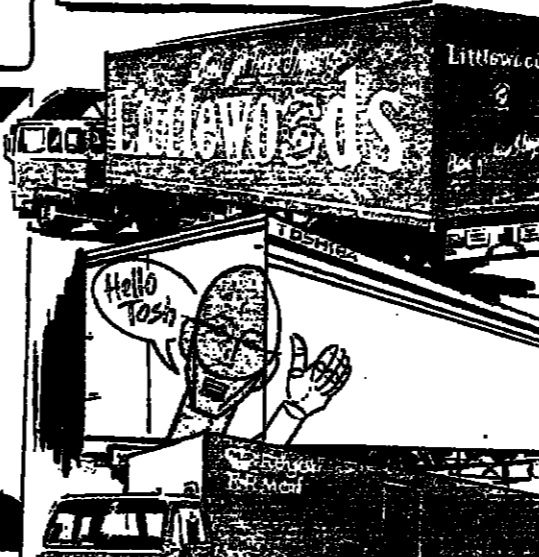
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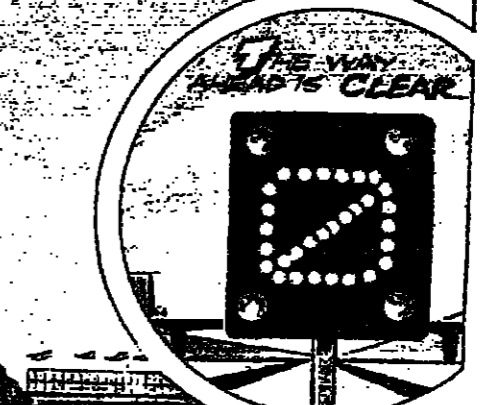
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MANAGEMENT BUY-OUTS 5

Mezzanine financing

Lending to bridge the gap

AS THE management buy-out market has become more competitive, and the price of deals has soared, bankers and investors have had to devise ever more inventive financial packages.

This has led to the introduction of mezzanine financing - an import from the US - to bridge the gap between the price of the deal and the value of the underlying assets. It has also prompted the growth of the bought deal, to allow management teams to compete with trade buyers, and the use of ratchets to ensure that managers have an additional incentive to perform.

Mezzanine financing - so-called because it is a halfway stage between equity and loan capital - has been the most controversial innovation. It has prompted some fears that the buy-outs are being propped up by unsound finance and that companies will fold at the first setback.

So far, none of these fears have been realised, though some mezzanine-funded deals in the US have had to be refinanced. But the buoyancy of world stock markets and fairly stable interest rates have meant that buy-outs have not been put to the test.

Mezzanine finance is being used increasingly to meet the demands of managers for large

equity stakes in their companies and the requirement of the investors that they get a good return.

If the demands of the management and the investors for equity in the venture lead to too high an equity component in the deal, the investing institutions are unlikely to get an acceptable yield on their holding. If, on the other hand, a large amount of loan capital is provided (the deal becomes highly leveraged), the assets are unlikely to be sufficient to back the volume of lending.

Mezzanine finance comes in as a layer of funding which ranks after secured lending in the event of the company failing but before equity. To compensate for the greater risk attaching to this unsecured lending, mezzanine funds qualify for a higher rate of interest than secured lending.

Mezzanine funds would normally expect to earn a couple of points more than secured loans or senior debt. While secured bank lending might qualify in present conditions for a yield of 11½ to 12 per cent, mezzanine funds would yield 13 to 15 per cent, says Mr Charles Gonzor of Citicorp.

Typically, the mezzanine funds would carry a fixed coupon while the senior debt would carry a floating interest charge. In addition, the mezzanine

funds often carry what is known as an "equity kicker" in the form of options or warrants for the investor to acquire shares.

The combination of the interest and the warrants would be expected to take the global yield on the investment to between 20 and 25 per cent a year.

"Mezzanine funds provide high risks and high returns over a long period," says Faye Wilson, managing director of acquisition financing at Security Pacific National Bank. "There are not many places you can get a 15 per cent running yield and an equity booster to take you to 25 per cent - and that over a 10 year period."

The downside - in conventional banking terms - is that the deals are now financed in relation to the ability of the bought-out company to generate cash, rather than the asset backing. If interest rates rise sharply, the company might have difficulty in meeting the interest charge.

To limit the impact of interest rate movements, some deals incorporate what, in management buy-out jargon, is known as a "cylinder". This incorporates a "cap" or ceiling - setting a maximum interest charge regardless of the market, and a "collar" or floor should interest rates fall.

Despite this move to cash flow-based finance, most UK deal-makers believe buy-outs

are still financed within conservative limits. A typical ratio of borrowings to equity on UK deals is 3 or 4:1. In the US, deals are commonly carried out on gearing of 8 or 9:1.

"These UK deals are mainly mature companies with steady cash flows," says Citicorp's Mr Gonzor. "We don't leverage a transaction to the point where it endangers the company's future."

While the principle of mezzanine finance has been imported from the US there are differences between American and British practice, says Mr Gerard Lynch, vice president of acquisition financing at Security Pacific.

Strictly speaking, mezzanine lenders have no right to receive any payments while there are sums still owed to the secured lenders. In the US this extends to a bar on mezzanine lenders taking action to obtain payment until all problems have been sorted out.

By contrast in the UK, mezzanine lenders do sometimes retain the right to interest payments. And, on occasion, mezzanine capital is provided temporarily to allow a deal to be completed and then repaid from the first cash flows generated by the bought-out company.

This means that, for a while at least, the mezzanine lender is



Faye Wilson, Senior Vice President; Gerard Lynch, Vice President, Security Pacific National Bank, Acquisition Finance Group

in a better position than the secured lender. This type of finance is bridging finance rather than mezzanine funding proper, says Mr Lynch.

While equity, mezzanine and secured lending often come from different sources, investors do also frequently seek to achieve a "blended yield" by combining mezzanine with one of the other forms of finance.

Though competitive conditions have meant that management teams have been able to strike increasingly favourable terms for themselves when negotiating with their financial

backers, the investors have, in turn, applied ratchets to their funds.

A management team would typically be offered a smaller equity stake than it was seeking but be told its stake would increase if certain profit targets were met. Sometimes negative ratchets would provide for a fall in the management's equity stake if targets were not met but more usually a good performance would bring additional shares.

Though the bankers frequently feel that the balance of advantage has swung too much to-

wards the managers in structuring deals, the management teams do face tough competition from trade buyers keen to acquire their company. Trade buyers can frequently offer more and complete a deal more quickly.

To overcome the problem of speed, and to reduce the risk of the details of a deal being leaked, some of the larger deal-makers such as St. Prudential, and Citicorp are prepared to take the complete financing of a transaction onto their own books and syndicate it to other investors when the dust has set-

tled. This saves the management team from having to negotiate with several different investors and avoids the delays normally caused. "There is no doubt that the bought deal significantly improves the management's chances of acquiring their business. Even," says Mr Paul Brooks of Prudential Venture Managers, "the relatively small buy-out, underwritten deals will become increasingly important."

Charles Batchelor

Buy-ins

Teams come in as doctors

IN THE 1970s it was the "company doctor", with his black bag of corporate remedies at his side, who went into companies to return them to health. Professional consultants or senior corporate figures with the influence and independence to prescribe unpleasant medicine, they would be brought into companies in difficulty.

The late 1980s have seen a refinement of the company doctor principle. Taking as a model the management buy-out, venture capitalists and investment bankers have begun systematically to cultivate management teams capable of moving into a company in trouble. With financial backing from their bankers, the managers buy into the target company.

It was not unknown for the old-style company doctors to acquire small equity holdings in the companies they helped, but buy-ins tend to give the managers much larger share stakes. Gradual acceptance of the idea that professional managers can also own the companies they run has meant substantial numbers of buy-ins are now being completed. Mr Derek Smith of 3i (Investors in Industry) estimates his organisation will arrange up to 40 buy-ins in its current financial year.

Though the term buy-in has come to be applied to deals of this sort only in the past 18 months, the £310m purchase of Woolworth Holdings from its US parent by the Paternoster consortium in 1982 was an early - and still the largest - example of the technique.

Paternoster brought in Mr John Beckett, formerly chief executive of British Sugar Corporation, to head the new management team, though it was many months before he succeeded in attracting capable executives. Woolworth was regarded then as a retailing disaster but it has since gone on to provide good returns for its investors.

Attention has been drawn to the buy-in more recently by the attempt of Mr Philip Ling, former managing director of the Haden engineering group, to stage a buy-in at another publicly-quoted company, Simon Engineering. While this buy-in failed, it focused attention on the technique.

More of a success story was provided by the return of Crompton Instruments to the London Stock Exchange in March, eight years after Dr Terry Gooding carried out a buy-in at what was then a struggling manufacturer of scientific equipment.

The venture capitalists and the bankers are keen on buy-ins because they represent a more profitable line of business than buy-outs. Buy-outs have become so popular and so much institutional money is chasing a limited number of deals that the management buy-out teams have been able to squeeze the bankers on the terms of the deals.

A further sign of the maturity of the buy-out market is that the techniques have become widely known and most deals show only a limited degree of novelty, says Mr David Hutchings, deputy managing director of Midland Montagu Ventures.

The most significant difference between a buy-out and a buy-in is that, as the name implies, in the latter case the management team are strangers to the company and are brought in from outside.

The three main requirements of a buy-in are:

● An incoming management team with a good business record. Preferably its members should have experience of run-

ning their own company, rather than just a division or a subsidiary of a larger group. If they have previous experience of a buy-out, that is an added advantage.

● The investors should be prepared to take a close interest in the company after the new managers have taken over. Since the new management does not have the same detailed knowledge of the company that a buy-out team would have, the risks are larger. Investors must, therefore, be willing to take a much more hands-on role.

● There must be a target company which has failed to reach its full potential because of management weaknesses, and with shareholders who are ready to sell out.

Naturally enough, the agreement of the shareholders is essential in the case of a buy-in at a publicly-quoted company. The attempt by Mr Ling to stage a buy-in at Simon Engineering ran into stiff opposition from the Simon management and failed to convince shareholders. A contested buy-in has all the problems of a contested takeover bid and a few more besides.

The buy-in may overcome one of the objections to the buy-out - that a management which appeared unable to run a successful business before the buy-out is suddenly able to perform much better when it has its own money invested in the venture. Since the buy-in team consists of newcomers, this conflict does not arise.

It seems likely that a growing number of managers will be attracted by the idea of a buy-in. Some will be executives who would be willing to stage a buy-out of their existing company but are frustrated by their senior management's refusal to sell the business. Others will be casualties of the corporate restructuring which is currently going on in British industry in the form of takeovers, divestments and reorganisations.

Mr Richard Aston is an example of the frustrated buy-out manager. With the backing of Citicorp Venture Capital, he attempted a buy-out of Unibond Coppyder, the home improvements division of Beecham. In the event, Beecham sold Unibond, where Mr Aston had been managing director, to Henkel, the German chemical group.

Mr Aston then went on to stage a £5.5m buy-in at Gillroyd, a Yorkshire-based manufacturer of kitchen furniture, together with Mr David Evans, a former colleague. The two plan to transform Gillroyd into a cash-based DIY supplier and hope for a stock market listing in about two years.

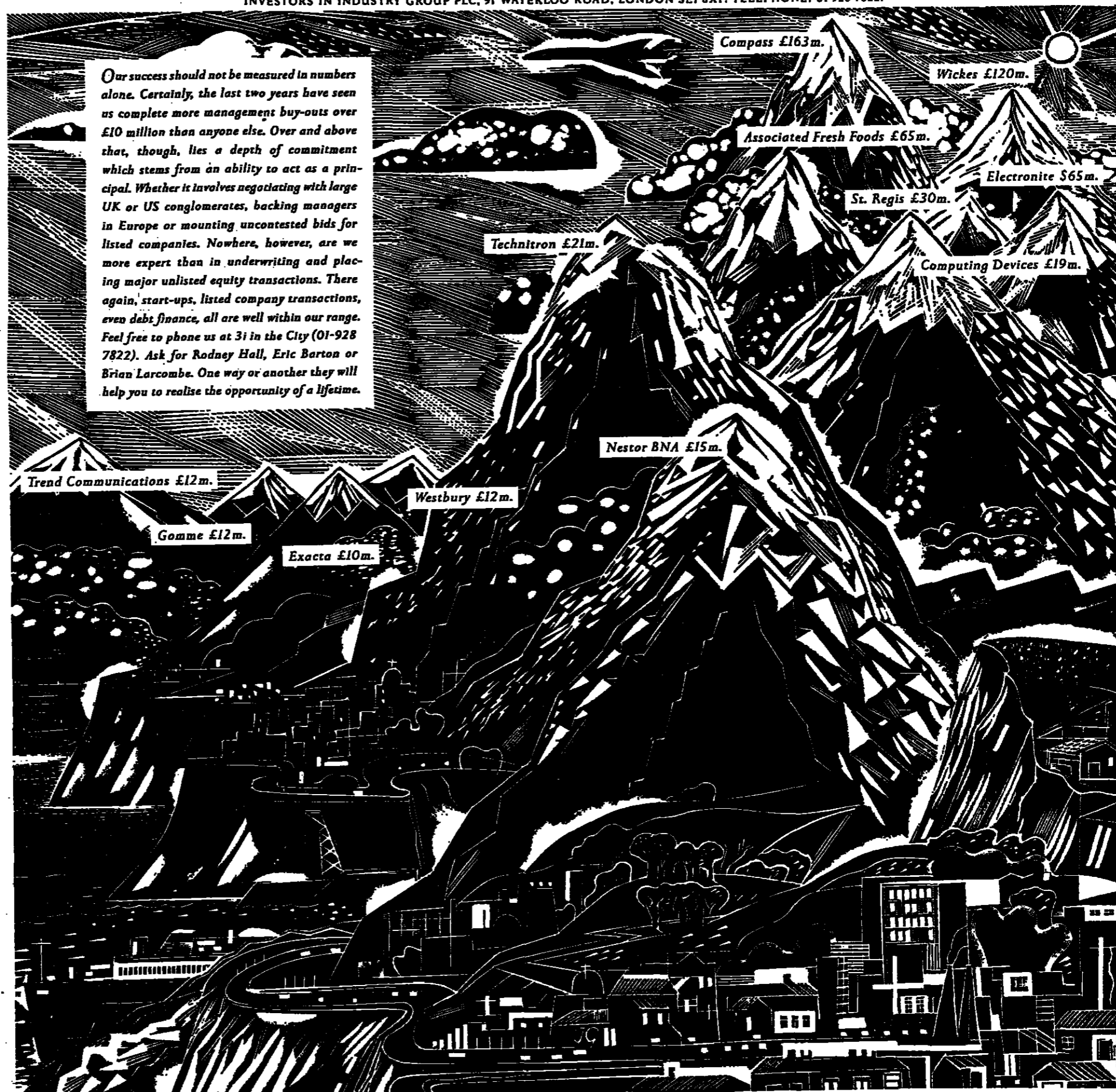
But even buy-ins can run into opposition. 3i's Mr Sach says one executive attempting a buy-in was beaten four times by rival trade buyers. It is quite common for buy-in teams to make several unsuccessful bids before finally succeeding.

A problem facing the buy-in managers is that, unlike the sitting management, they can claim no special knowledge of the target company, so they have to take their place alongside any other outside bidders.

With the buy-out teams, trade bidders and now the buy-in teams all competing for control of the ailing or the spun-off company, prices seem set to remain high and the venture capitalists and bankers busy.

Charles Batchelor

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OUR RECORD NUMBER OF
MANAGEMENT BUY-OUTS WOULD SUGGEST
SKILLS NO LESS FAR-RANGING



BY CLARENCE P. HENNING

by deal participants

Deal Leader	Company	Total Funding Size	Other Equity Type Investors	Bank and Shareholder Partners
Lloyds Development Capital Merchant Bank	Wicksons Shipbuilders & Engineers	100	St. Paul National Trust, Prudential, Abbey Life, Belfrage, B&A PF, Commercial Union, Eagle Star, Home Guard, London & Manchester, Norwich Union, Pearl Assurance Profile, Shaw & Phipps, Equitable Life, St. George's PF	Prudential
	Norwest Bank	45	Lloyds	Lloyds, Norwest
	Dunne Hardware	27	Barclays, Phillips & Drew, Barclays Trust, County Natwest, St	Natwest, First National Boston
Lloyds Development Capital Merchant Bank	Thermoflex	12	Wood MacKenzie, Warburg, Giscard, Kiewit, Marchant Hery PF, Midland Mortgage, NCB PF, Pount, Garmann, Hery & Sims, CMI	
Macell Lynch	Larsson Hardware	250	Canadian private companies	CIBC, Bank of Nova Scotia
Midland Mortgage Ventures	Neocra Leisure	65	Warburg, St. Midland Mortgage, Royal Insurance, Eagle Star, Charterhouse, Marchant Hery PF, Ruking, Scottish Widows, British Rail PF, Pount, M&M, RBS, Norwich Union, Scottish Amicable, Friends Provident, London Life, Garmann, J&B Samuel, Morgan Grenfell, British Linen Bank, South Yorkshire CC, Pount	Sumit Mortgage, RBS, St. Charlemagne, Creditanstalt
	British Transport Advertising	50	None	Midland
	AWO	15	None	Midland, Philadelphia National
Midland Mortgage Ventures	Purth Decorative Products	12	County Natwest, SCI, Fountain, SLIMT, WDA	Natwest
Midland Mortgage Ventures/CN	QBS International (AMF Legal)	25	First National Boston, Eliche, Canis, Charterhouse, Pount, Sun Life	Midland
Morgan Grenfell Target		50	Marchant Hery PF, Bank of Scotland, Belfrage, Goswami, Midland Mortgage, Pount Fund, Schneider	
Providence Capital Partners	English & American Insurance Co.	10	None	None
3P Prudential	Westbury	12	Eliche, Munay, Calson, Robinson, Brown Goldie, County Natwest, Graham, Home Credit, Midland Mortgage, CMI, North B&L, Canadian, London Life, Target, L&S Alliance, Calsonide DC	Midland
	Goswami	12	Barclays, Charterhouse, CMI, County Natwest, Pount, Midland Mortgage, Phillips Drew	St

Deal Number	Company	Total Funding (\$)	Other Funding Type / Investors	Bank and Mezzanine Finance
SP/Proteus/ Manchester Exchange Trust	St. George	15	St. Proteus Ltd, CML, MetLife, Ebsco, Murray, First National Boston, Home Concrete, Citicorp, MetLife, Citicorp of America	Harvest, Citibank, Chase
Scam/Granite	Aerospace/Steel Design	15	Private Individuals	Scandinavian, Postbank
Scholar Ventures	Parker Pen	74	Banking Trust, Ebsco, Citicorp, Credit	Deutsche Trust, KfWbank
Security Pacific Home Goods Equity Ventures	Clare's Employment	20	Country National, CML, Barclays	Security Pacific, Ulysses, St. Francis International
	Crown Home Manufacturing	20	None	Credit Agricole
	Anderson & Gordon & Industrial Technology	25	None	Manufacturers Hanover
Working	State Recording Equipment	32	KLEB, Procter & Gamble, State-Gen Partners, Ebsco, L.A. Q, Midway	None
SP/Working	Wishes	120	Imperial Life Fund Fund, Procter & Gamble, Ulysses, Midland Insurance, Budge, St. Vincent CG, Global Asset Management, St. Catherine's College, Merchant Navy PF, ITI Incorporated & General, IBM	3
NONE	Amalgamated Funds	21	United Dry Corporation	United Dry, National
NONE	Jensen Green	10	None	None
NONE	William Fisher (Willingham)	10	None	Banking
NONE	Stann Group	10	None	Bank of Scotland
NONE	Bryman Airways	0	None	Manufacturers Hanover
NONE	Stanley Williams	0	None	Banking
	Richard Stanley	24		
	USIS Securities	16		

Involvement of solicitors in larger MBOs

	Acting for: Management Dealholder		Total
Clifford Chance	12	17	29
Ashurst	4	12	16
Freshfields	1	12	13
Slaughter and May	5	5	10
Allen and Overy	3	6	9
Herbert Smith	3	4	7
<hr/>			
Norton Rose	3	3	6
Dickson Minto	4	—	4
Turner Kenneth Brown	4	—	4
Linklaters	2	2	4
Evershed and Tomkinson	4	—	4
Mitchells	—	4	4
<hr/>			
3i Legal	—	4	4
Travers Smith Brindley	1	2	3
Cameron Mackay	1	2	3
Lowell White & King	2	1	3
Herbert Oppenheimer	2	—	2
Wilkinson Kinners	2	—	2
<hr/>			
S. J. Berwin	2	—	2
Shaggs & Co	2	—	2
Shannon Curtis	1	1	2
Others	30	14	44
	88	86	176

Source: Paul Marwick McIntook

Deal Leaders of larger MBOs

	Number of deals Sole Joint Total	Total value £m	Average value £m	Address	Telephone number
Bankers Trust Company	6 - - 6	491	80	Dashwood House, 69 Old Broad Street, London, EC2P 2EJ	01-728 4141
Barclays Development Capital	4 - - 4	92	23	Pickfords Wharf, Olinck Street, London, SE1 9DG	01-407 2369
British Linen Bank	1 - - 1	13	13	55 Bishopsgate, London, EC2N 3BN	01-588 7911
Candover Investments	7 3 10	298	30	Croft House, 9-9 East Harding Street, London, EC4A 3AS	01-583 5090
Centle Finance	1 - - 1	15	15	PO Box 63, Surrey Street, Norwich, NR1 3TE	0603-622200
Charterhouse	4 2 6	129	21	7 Ludgate Broadway, London, EC4V 6DX	01-248 4000
Chase	1 1 2	104	52	PO Box 10, Woolgate House, Coleman Street, London, EC2P 2HD	01-728 5559
Citi	1 2 3	61	20	PO Box 10, London, SW1X 7AD	01-245 8911
Citicorp Venture Capital	4 5 9	183	20	2 Savoy Court, London, WC2R 0EZ	01-438 1285
County Midwest Ventures	2 - - 2	31	16	Drapers Gardens, 12 Throgmorton Av., London, EC2P 2ES	01-382 1000
Electra	1 3 4	182	48	25 Kingsway, London, WC2B 6QT	01-531 6464
First National Boston	1 - - 1	44	44	PO Box 155, 5 Chesapeake, London, EC2P 2DE	01-248 0701
Generville	4 - - 4	47	12	8 Lovett Lane, London, EC3R 8BP	01-621 1212
Goldborough	1 1 2	19	10	Vestry House, Greyfriars Passage, Norwiche Street, London, EC1A 7BA	01-408 6321
Hamden	1 - - 1	26	26	41-45 Bishopsgate, London, EC2P 2AA	01-588 2851
Hill Samuel	1 - - 1	28	28	100 Wood Street, London, EC2P 2AJ	01-528 8011
ICI	7 5 12	511	43	91 Walbrook Road, London, SE1 6NP	01-628 7822
Kleinwort Benson	2 1 3	93	31	PO Box 592, 20 Fenchurch Street, London, EC3P 3DP	01-623 9000
Lloyds Development Capital/ Merchant Bank	4 - - 4	104	46	40-48 Queen Victoria Street, London, EC4A 4EL	01-249 4275
Manchester Exchange Trust	- 1 1	52	52	Pembroke House, 40 City Road, London, EC1Y 2AX	01-251 9281
Merrill Lynch	1 - - 1	260	260	27 Finsbury Square, London, EC2A 1AQ	01-382 6880
Midlands Mortgage Ventures	4 1 5	195	39	114 Old Broad Street, London, EC2P 2HY	01-588 8818
Morgan Grenfell	1 - - 1	50	50	28 Great Winchester Street, London, EC2P 2AX	01-588 4545
Prudential Venture Managers	- 3 3	76	25	142 Holborn Bars, London, EC1N 2NH	01-636 6799
Scandinavian Bank	1 1 2	53	27	Scandinavian House, 28 Cannon Street, London, EC4M 6DX	01-236 6090
Schroder Ventures	3 - - 3	135	45	Regina House, 5 Queen Street, London, EC4M 1SP	01-382 6000
Security Pacific House Govett Equity Ventures	- 1 - 1	29	29	Security Pacific House, 4 Broadgate, London, EC2M 7LE	01-588 0303
SUNAT	- 1 1	10	10	Edmund House, 12 Newhall Street, Birmingham, B3 8SR	021-200 2244
SW Warburg	1 1 2	142	71	33 King William Street, London, EC4R 9AS	01-290 2222
How Elizabete joint deals	9 - - 9 (10) (10)	135 (642)	15		
	73 15 89	3,193	38		

NOTE: This and other tables report the results of a survey as at 15th September 1987 undertaken by Peat Marwick McLintock for the Financial Times of the deal leaders of management buy outs since 1981 with total funding of over £10m in 1987 values. UK MBOs are strictly so defined and exclude for example management buy-ins, leveraged refinancings and UK financed offshore MBOs.

Source: Peat Marwick McLintock

Accountants in larger MBOs

Peet Marwick McLintock	35
Dueltje Hastings & Sells	12
Arthur Andersen	11
Price Waterhouse	2
Spicer and Pegler	4
Touche Ross	4
Arthur Young	4
Ernst & Whinney	3
Coopers & Lybrand	2
Grant Thornton	2
Others	8
	88

Source: Peter Warwick McIntosh

Top 10 providers of debt

	Number of MROs
NatWest	14
Bank of Scotland	11
Barchays	11
Standard Chartered	9
3i	8
Kleinwort Benson	7
Barclays Trust	6
Citibank	6
Lloyds	6
HSBC	5

Source: Paul Marwick McLintock

Top 25 equity investors

	Number of MLLCs invested in
3i	33
Electra	26
CIN	25
Prudential Venture Partners	23
Chicorp	19
County NatWest	18
Midland Montagu Ventures	17
Candover Investments	16
Barclays Development Capital	16
Lloyds	15
Charterhouse	14
Globe	12
Kleinwort Benson	12
Waring Jenkins	10
Schroder Ventures	10
Legal & General	10
Barclays Trust	8
Castle Finance	8
S & Waring	8
ECF	6
F&C	6
FIN Samuel/Fountain	6
SUNBT	7
First National Boston	6
First National Eastern	6
South Star	6

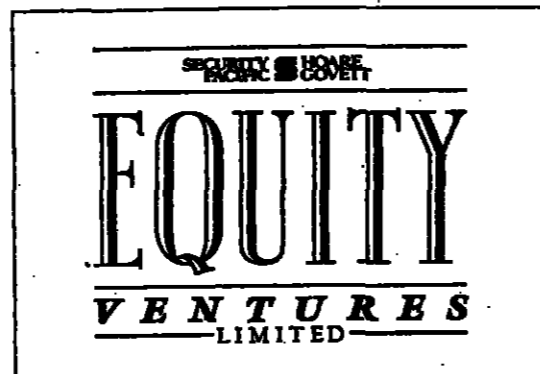
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MBO investments completed since May '87 include Clares Equipment £28.5m (Lead Manager) Compass Services £160m (syndicate investee) Associated Fresh Foods £67.5m (joint underwriter).

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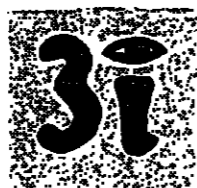
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John Burgess

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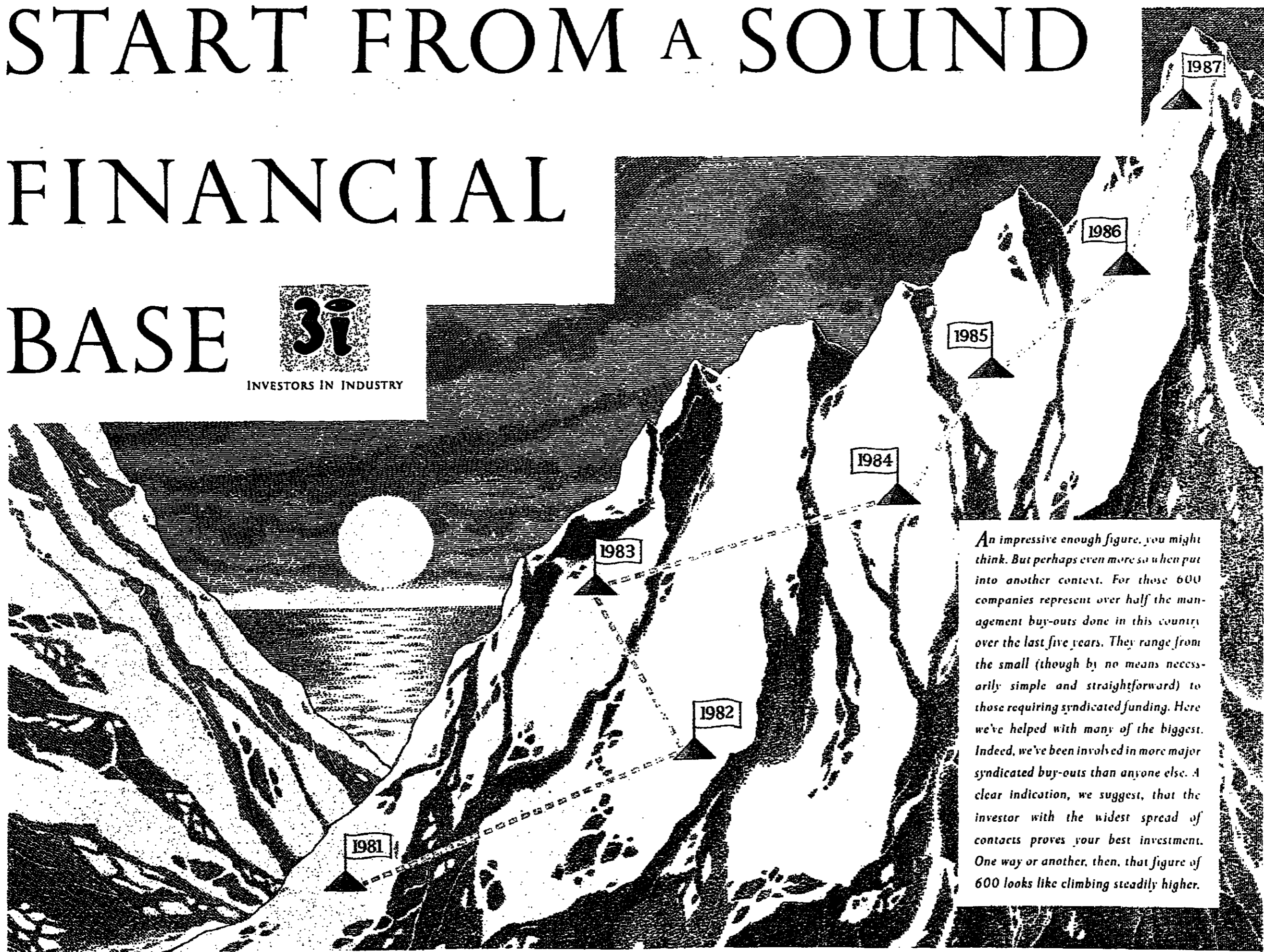
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MANAGEMENT BUY-OUTS 10

France

Buy-outs are seen as key to keeping jobs

THE FRENCH, in typical fashion, call them RES, short for "reprise d'entreprise par ses salariés". The term is nothing more than a translation for the more familiar Anglo-Saxon LBO or leveraged management buy-out.

But the fact that France has opted for a special term of its own for this emerging activity reflects the high hopes of the conservative government, as well as investment specialists, for the development of this fledgling business.

Specialists in the LBO field see the potential for management buy-outs as enormous. They claim that the number of companies capable of being interested in LBOs over the next 10 years runs in the thousands.

A recent study by the venture capital association, Afic, revealed that as many as 10,000 small and medium-sized enterprises, employing between 50 to 1,000 people, had company chairmen who would be reaching retirement between now and the end of the decade.

Of these enterprises, about a third are likely to face serious succession problems, for these are the "patrons" who built up France's backbone of small business enterprises during the post-war economic boom. Their retirement will pose difficult problems of finding replacements to run and manage the companies.

The authorities have become increasingly worried by this issue since if replacements and successors are not found, many of these enterprises risk disappearing. At stake are as many as 600,000 jobs, according to the Afic report. Already succession problems are estimated to cause about 10 per cent of corporate bankruptcies.

The government sees LBOs as providing a solution to guarantee the ongoing survival of many of these companies. The market for management buy-outs is likely to grow even more, however, as a result of the restructurings of major industrial groups as well as the government's privatisation programme.

Strategic streamlining, and the refocusing on core businesses by these larger groups, has meant that an increasing number of smaller subsidiaries

which no longer fit in the grand strategies of the restructured groups have looked for a new direction.

Even before the right returned to power in France 18 months ago, the former Socialist government had attempted to launch the development of management buy-outs as part of its overall strategy to boost venture capital and develop new financial instruments in France. The Socialists introduced the concept of management buy-outs with legislation passed in 1984.

The original law offered enormous fiscal advantages to encourage salaried workers to mount management buy-outs. But there were also handicaps because operations had to be screened by the finance authorities. In many cases, this either put people off applying for management buy-outs, or tied up dossiers in red tape. Moreover, buy-outs were limited to employees of the companies in

The authorities are worried. At stake are as many as 600,000 jobs

question, narrowing the field considerably since outside investors were not able to propose a buy-out operation.

Indeed, during the last two-and-a-half years, only about 140 management buy-outs have been approved by the authorities although the pool of potential operations was clearly considerable. The new government, therefore, immediately set about studying a change in the legislation to try to improve the climate for management buy-outs.

The big change has been to scrap the fiscal advantages of the earlier law but, in compensation, reduce to a minimum the red tape. Special authorisation is now no longer necessary. Moreover, the government has widened the range of candidates by allowing outside investors as well as employees of the companies to arrange buy-out operations.



Over half floated within three years

The time-lag between a management team staging a buy-out and bringing their company to market has been shortening and more than half are now floated within three years. Caradon, the building products company which makes Twyford bathroom fittings, took 21 months from the buy-out from Reed International to flotation last July.

Caradon, which was by no means exceptional, shows the extent to which the process can add to the value of a business. From a buy-out valued at \$51m, just £12m of which was accounted for by equity, Caradon moved to a flotation which valued it at £124m. The shares on offer were subscribed 39 times and after the first day of

trading the company's shares closed at a premium of a further 34 per cent.

Like other companies which have been floated recently, Caradon benefited from the buoyancy of the stock market. But the underlying reason for the re-rating of the business was the steps taken by its strengthened management team, headed by Mr Peter Jansen (right), managing director and chief executive, and Mr Antony Hitchens, chairman (left).

There was an increase in trading profit from \$9.7m in the year of the buy-out to £16.1m in the 12 months ended March 1987.

US buy-outs

Fixed part of the landscape

IN THE US, interest rates present the only cloud on the horizon as management buy-outs boom merrily along. If they move much higher, then interest rates may well present a problem, according to Mr Martin Sikora, editor of Mergers and Acquisitions magazine. As the cost of money rises, then the price of companies must fall.

Otherwise, the practice of buy-outs by a group - including company management - with the help of borrowed capital is now a fixed part of the financial landscape. It has been professionalised, institutionalised and systematised. In fact, it is now a growth industry with investment banks joining in to provide their own capital.

By all indications, the managers who invest in their companies have been reaping huge profits, particularly those companies which sell off subsidiaries for handsome profits and then returned to what was until recently a surging stock market.

The sale of Outlook Communications of Providence, Rhode Island, by the Rockefeller family to a group of executives in July 1986 made many of the managers into millionaires after the company went public again last January. One executive saw his \$87,000 stake soar to \$6m.

That sort of killing by investors is indicative of one of the latest trends spotted by Mr Sikora. Companies which go private in leveraged buy-outs are making speedier returns than ever to the public market. (Formerly, companies went private for five to seven years, during which time they made strategic changes in operations, paid off their debt and went public again to raise more capital or to

make handsome profits for investors.)

Over 50 companies which went private in the past five years have gone public again - some with the management still in control, according to Mr Sikora. Investment Dealers' Digest said that last year 30 leveraged buy-outs returned to public hands and 13 more joined them in the first quarter of this year.

It all works very well in a surging market, as long as interest rates remain very low. In fact, it worked so well for the buyers of Beatrice Co and its chief executive, Mr Donald Kelly, that suspicions have been raised that management buy-outs, in general, can cheat innocent stockholders, who know no better than to take the profits and run.

When Beatrice went private last year in a \$6.2bn leveraged buy-out, it was the largest ever, arranged by the buy-out king, Kohlberg, Kravis & Roberts. The new private company, bought out by former management with an equity stake of \$400m, took just eight months to shed nearly \$5bn in debt by selling off bits and pieces.

Part of the remainder, called "E2" went public in July. The rest, a domestic food company, is up for sale now for an estimated \$6bn. The investors are in line for a profit of \$4bn.

The Beatrice deal illustrates the advantages of including a management group in a buy-out. It knew the company and knew its worth. Outsider acquisitions, on the other hand, can provide some unpleasant surprises.

Wickes, a West Coast conglomerate, bought out Collins & Aikman, a Manhattan textile manufacturer, for \$1.6bn. It later discovered that the new subsidiary had sold about \$380m worth of commercial carpeting which failed to meet fire safety standards. Wickes' stock plunged when the news broke.

Sixteen private stockholders of the Atlantic Magazine are involved in a suit and counter-suit with Mr Mortimer Zucker, the real estate developer and publisher. The stockholders, who sold him the magazine, say he did not pay them \$2.7m of the \$3.6m purchase price. He is countering and claiming that he was misled about the magazine's finances.

These cases can be contrasted with that of Metromedia, which

US leveraged buyouts

	Total deals	Known prices \$bn
1981	99	3.1
1982	164	3.3
1983	230	4.5
1984	251	18.8
1985	253	19.3
1986	329	44.7
1987*	136	13.2

*First 6 months of 1987; not included are companies with uncompleted prices and the unreported prices market.

Source: Mergers & Acquisitions Magazine.

was bought by Mr John Klinge, its chief executive, in 1984 for \$1.1bn when the company's stock price was at a six-year low. Mr Klinge sold off parts of the company, and the television stations alone brought in \$2bn.

The management held on to the company's cellular operations until telecommunications began buying them up. In the end, management got \$5.5 bn, five times its original investment.

Nancy Dunne

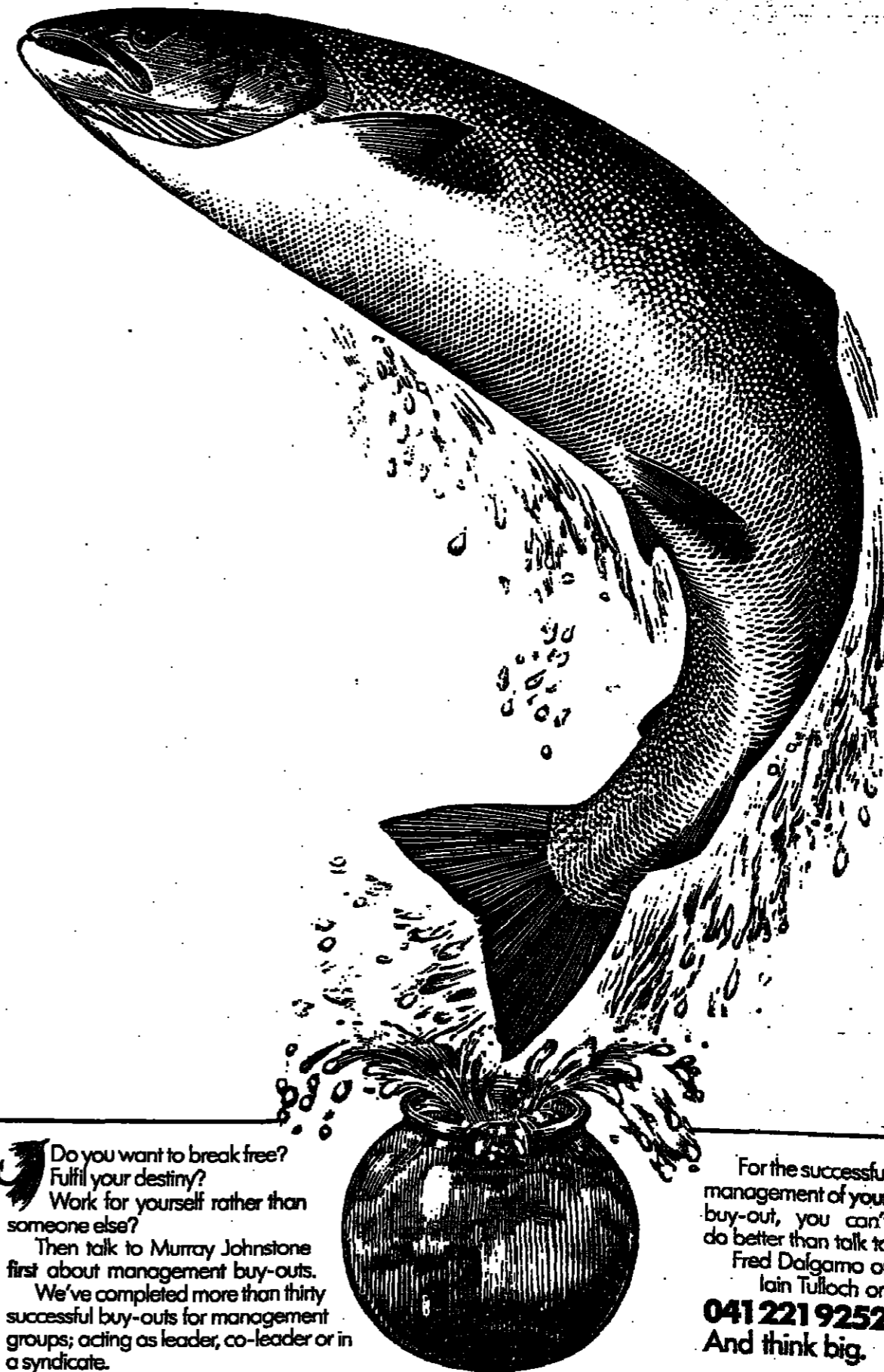
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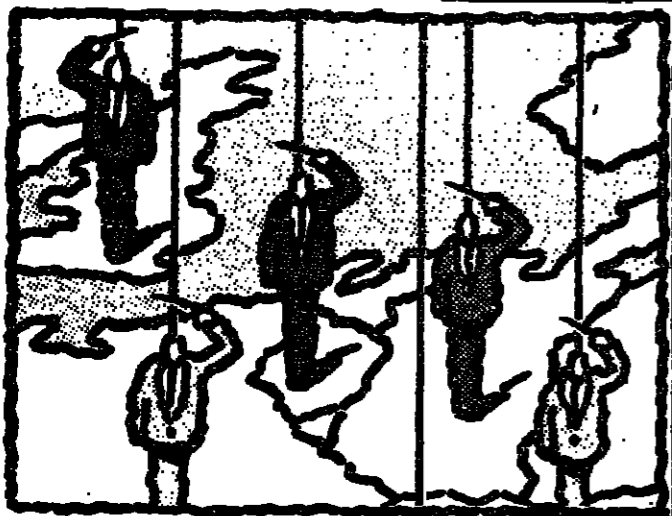
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International networks

Cross-border deals are on the increase



Candover's Roger Brooks: 'German managers are enthusiastic'

West Germany

Scene is not yet crowded

IT HAS become more than a mere whisper, but is still far less than a loud roar. The idea of managers buying their own companies is gaining ground in West Germany, but the message has not yet penetrated to the extent that it has in the US or Britain.

The talk among those involved in setting up and financing management buy-outs in Germany is more about potential than actual levels of business. 'A year ago, hardly anyone knew what they were,' says Mr Thomas Matzen, who runs the German buy-out fund of J Henry Schroder, the UK merchant bank. 'Now, a lot of managers see management buy-outs as a chance for a new career.'

Schroder entered the market nearly a year ago with a DM140m buy-out fund, the first to be set up specifically for this type of financing in Germany. Six months later, in May of this year, it completed the country's largest-ever buy-out. Totalling some DM100m (\$55m), it involved the European machine tool division of Ex-Cell-O of the US.

It will take a few more deals like that before the buy-out trend really takes off in Germany, where many owners and managers of companies still have to be educated in or convinced of the advantages of this form of company purchase. 'We need some good success stories,' comments Mr Rolf Dienst, chief executive of TRV, the venture capital arm of Munich's Matthes group. TRV has been doing buy-outs for several years. Mr Dienst reckons the rate of such deals in Germany should rise sharply from next year. 'Don't underestimate it,' he remarks.

Apart from Ex-Cell-O, where the buy-out was from Textron of the US, the best known such deal in Germany has been that of Loewe Opta, the television and electronics company. Loewe was formerly owned by the Philips group of Holland, and its managers bought into it for an undisclosed sum in March 1985. Dresdner Bank was instrumental in the Loewe deal, though Germany's big banks have so far tended to fight shy of buy-outs as an unknown concept.

They are indirectly involved, however, through WFG Deutsche Gesellschaft fuer Wirtschaftliche Kapital (risk capital), owned by Germany's large commercial banks. Earlier this year, WFG completed the DM12.5m buy-out from the big Thyssen group of its Hausach operation, which specialises in small containers for dangerous goods.

According to Mr Karl-Heinz Faselow, WFG's managing director, buy-outs are likely to show a similar development in Germany to that of venture capital activities in recent years, taking off after a slow start. 'Three or four years ago, people didn't know what venture capital was. Now, there is a good market.'

Nor can UK or US buy-out models be easily transferred to Germany. Among the country's many small- and medium-sized companies, where WFG and others see a large potential for buy-outs as the owning families undergo generation changes, much has to be done to promote the idea of buy-outs. Also, many such companies are already highly indebted to banks - the average equity share of German companies' financing is less than 20 per cent.

Many companies, which might otherwise be suitable for the buy-out treatment, do not come into contention. 'The basic financing structure in Germany, with too high a debt and

too little equity, is an obstruction as far as buy-outs are concerned,' adds Mr Faselow.

Some buy-out experts, in fact, reckon that a number of deals done in Germany, including Hausach, are not really buy-outs in the classic Anglo-Saxon sense, because the leveraging effect is too small. The two Hausach managers only received an initial 16% per cent equity stake for the DM1m which they raised.

In the US or UK, they would probably have obtained more, since the rest of the financing would have been divided up differently between equity and debt. 'It is astonishing sometimes how different people's interpretations of buy-outs are in Germany,' feels Mr Johannes Drerup, general manager of LCB-Candover in Frankfurt. 'There's been a lot of talk, but few real buy-outs.'

While the buy-out field is by no means crowded yet, it is filling up. Also from the UK, 3i (Investors in Industry) has set up in Frankfurt. LCB-Candover is a partnership between UK buy-out specialist Candover Investments and London and Continental Bankers, a merchant bank in which Deutsche Genossenschaftsbank (DG Bank) has a majority holding.

'There is still a degree of ignorance in Germany about buy-outs,' says Mr Roger Brooks, chief executive of Candover in the UK. But he sees no inherent reason why the notion should not catch on. 'German managers are just as enthusiastic as British managers.' In a country where private companies play such a big economic role, 'there is a greater distinction between the steward and the lord of the manor, the salaried employee (manager) and the shareholder. Lots of excellent managers never think of owning shares.'

However, a reverse situation can apply, where the family owners actively woo new management. Hence the concept of the buy-in, with experienced outside managers putting up cash and being financed to move into a new concern. 'There are lots of companies where the owner has management talent,' says Mr Matzen of Schroder in Hamburg.

Despite the increasing attention being paid to buy-ins, 'you lose one big attraction of the buy-out,' notes Count Friedrich von der Groeben, head of 3i in Frankfurt. 'You don't have inside information.' Managers coming from outside may be skilled, experienced, and perfectly capable of running the business, but it will take time for them to become acquainted with the business in a way that will benefit both them and investors.

LCB-Candover sees more potential for buy-outs and buy-ins among typical German family businesses, says Mr Drerup. While there is scope for buy-outs among subsidiaries of foreign companies, with good management already in place, big German concerns are often prepared to pay high prices if such an operation comes on the market, he adds. 'It is often a policy decision of such a concern to buy market share at a high price.'

All of those now in the German buy-out field say they are working on several deals, some potentially worth DM100m or more, so the scene looks set to become more lively. To promote the concept really, a few more significant, interesting and successful deals will be needed. For that, it will take time, both to do the deals and to assess their viability.

Andrew Fisher

THE MANAGEMENT buy-out has gone international. The growth in the scope and size of the deals being put together means they increasingly involve operations in several countries and more than one continent.

The merchant bankers and the venture capitalists who advise the buy-out teams are having to establish international networks of offices to meet the needs of their clients. Just as in the late 1970s teams of US venture capitalists began establishing outposts in Britain, the British and Americans are now setting up their stalls in the business centres of the Continent.

They are driven not only by the international nature of the deals in which they are involved but also by intense competition in the UK buy-out market. This has allowed UK management teams to negotiate increasingly favourable terms for themselves and to squeeze the financiers' margins.

The cross-border deal remains a major challenge to the corporate finance skills of the deal-makers but the number of transactions successfully completed is on the increase as the techniques become more widely known.

(Investors in Industry) 3i led a \$65m buy-out of Electro-Nite, a supplier of measuring equipment to the steel industry, last December. Managers from eight

countries took equity stakes in Electro-Nite, which is based in Belgium and was formerly part of Midland-Ross Corporation of Cleveland, Ohio.

In March, seven senior managers of Wickes, the building supplies and DIY retailer, led a £120m buy-out of their company from its US parent group. Unusually Wickes, which had been quoted on the USM, retained its public market status, moving on to a full listing.

Rentco, the European trailer rental subsidiary of Fruehauf Corporation, was bought out by 18 of its managers in a £43m deal in May. Rentco has operations throughout Europe but is based in the UK.

As these examples show, a ready source of buy-outs is to be found in the European operations of US companies which are slimming their businesses. Another fertile area is the large number of family-owned businesses established in Europe after the Second World War. The owners are now often approaching retirement and may face problems of finding a successor.

The availability of cheap long-term bank lending on the Continent, and the inefficiencies of the local stock markets have meant many sizeable companies have remained in family hands until now.

The growing popularity of privatisation as a means of reduc-

ing the state's involvement in industry is also starting to produce candidates for the buy-out treatment in France and elsewhere.

British-based groups such as 3i, Schroder Ventures and Candover Investments have begun opening offices in continental centres such as Paris and Frankfurt. US banks like Citicorp have been setting up venture capital teams in Paris, Frankfurt, Milan and Madrid.

These offices are attempting to stimulate local business - a French buy-out team taking control of a French company - but purely national deals are proving something of an uphill struggle.

In Germany, in particular, the conservatism of the business community, the influence of the banks and still fragmented stock markets have meant the deal-flow has been very slow.

The Netherlands, traditionally more open to foreign ideas, has been the scene of rather more activity with about 100 deals estimated to have taken place in recent years.

France, too, has proved more fruitful ground with a similar number of deals completed. Citicorp Venture Capital reports its Paris office has invested more than \$10m in 18 deals over the past two years.

But the figures for individual countries remain small com-

pared with the hundreds of deals carried out in Britain.

Determined though they may be to develop 'local' business in the countries where they have offices, the international networks make their most vital (and most profitable) contribution in the large cross-border deals.

By calling in their overseas offices the financiers can locate the deal, research the position of large subsidiaries and product markets in the various countries where the company is based and raise finance locally.

Schroder Ventures, the fast-growing subsidiary of the UK banking group, cites the buy-out of the European machine tool division of the Ex-Cell-O Corporation from Textron Inc. of the US as a classic cross-border buy-out. The division had manufacturing and/or sales centres in Sinsingen, Germany; Leicester in the UK; and Michigan.

The deal was located by Schroder's US group; the financing was led by the German buy-out group; and the completion of the deal was carried out by the teams in Germany and Britain.

The management team initially faced competition from another buyer but they managed to negotiate a lock-out period of seven working days in which to

carry out due diligence and complete the deal.

An unexpected disadvantage of working across borders was that the seven-day period included bank holidays in Germany and the UK - on separate days.

A noteworthy aspect of the Textron deal was the favourable rate at which both long-term and bridging finance could be obtained from the German bank involved. The rate of 5.5 per cent was considerably lower than rates available in the UK.

The ability to diversify sources of finance is also singled out by Mr Gordon Bonnyman, vice president at Bankers Trust Company, as an advantage of cross border deals. By borrowing funds and raising equity in a number of geographical locations the financing costs of a deal can be reduced, he notes.

But the benefits which can be gained from shopping around for funds are matched by formidable disadvantages.

Legal and linguistic differences can lead to headaches. The advisers may find themselves putting their name to lengthy documentation written in a foreign language and using legal terminology which may not have an exact equivalent in the other language.

Deals which take several

weeks to negotiate are vulnerable to currency fluctuations which can make a nonsense of the calculations which have been made at the outset. The Textron buy-out was negotiated in the run up to the last British General Election when the opinion polls were influencing the currency markets.

The tax implications of a deal can make or break a buy-out. Reconciling different tax jurisdictions can sometimes produce a windfall for the managers and their advisers. But in other instances tax issues can make an otherwise attractive deal unworkable.

To add to this list of potential obstacles, differing management cultures and traditions of bank lending, constraints on lenders taking security in several legal jurisdictions and different accounting treatment of profits may also cloud the picture.

Despite these difficulties the cross-border buy-out seems set to grow in importance. The decision by several US banks to beef up their London operations is already leading to their taking a closer interest in cross-border deals. This will put further pressure on the British players to seek their profits overseas.

Charles Batchelor

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MANAGEMENT BUY-OUTS 12

Employee share ownership plans

Few schemes so far

BUY-OUTS in the UK have rarely involved the workforce - often deals have to be put together very fast and the extent of consultation needed for an employee scheme could take too long.

And executive share option schemes, which can, as the Burton example showed, be extremely lucrative for senior management, have gained acceptance much more easily than plans aimed at covering the entire workforce.

But the signs are that things could be changing. Wider share ownership is one of the few ideas to be accepted by all four main political parties. Even the Trades Union Congress this year recognized the need to take account of the growth in individual and worker share ownership schemes.

Motives may differ widely - the Conservatives seeing the schemes as entrenching capitalism through wider share ownership and the Labour party as a means to give workers influence in companies, and as a modern alternative to state control of industry. But the end result looks likely to be the same: employees will own more shares in their companies.

Britain has lagged well behind the US in this respect. Union leaders in the US were initially hostile to the concept of schemes designed to promote employee share ownership but as the early eighties recession took hold, some plans became weapons in the fight to save companies from bankruptcy. In 1984, an Esop (Employee share ownership plan) backed by four unions, made a bid for Frontier Airlines which was then close to collapse. Ironically, the bid failed and the airline was finally bought by People Express, itself an employee-owned corporation.

The Esop Association, a Washington-based pressure group, estimated earlier this year that the number of US schemes has grown from around 300 in 1974 to over 9,000 today.

San Francisco investment banker and economist Louis O Kelso estimates that around 10m Americans or 8 per cent of the workforce have shares in the companies they work for and he predicts the figure could rise to 25 per cent of the workforce by the end of the century.

That progress has been less rapid in the UK is illustrated by the Stock Exchange's estimate, made in March, that 1.5m British people own shares in the companies they work for. But Unity Trust, the trade union backed financial services group, is promoting a model of the US Esop in the UK.

Unity established an advisory and consultancy body in April last year to help companies thinking of introducing employee ownership schemes. Shortly afterwards, Road Chief, the motorway service area operator, set up a fund on the Unity model.

The essence of a Unity Esop is an employee trust which borrows money from a bank in order to buy shares on behalf of the workers - with the loan guaranteed by the company itself. The good news for the company is that such a scheme provides new capital which can fund expansion or reduce gearing levels.

The company loan can then be repaid in a variety of ways. One possibility is for workers and management to agree a medium-term development plan which sets out targets for productivity and perhaps job creation in return for which the company makes bonus payments into the trust.

Esops, if correctly structured, bring tax advantages to the companies that establish them. Bonus payments to the scheme can be offset against corporation tax; the employees will pay no income tax on their shares provided that they hold on to them for at least five years. When staff leave, their shares can be bought back by the trust and used for the benefit of future employees.

So far, the number of fully-fledged Esops in the UK has been limited. Roadchief had been bought out by its management in 1983, and the ESOP route was chosen as a means of spreading the group's shareholder base without weakening overall control. At the suggestion of the General Municipal and Boilermakers Union, the company approached Unity Trust.

Unity agreed to put up £250,000 of the finance towards the £500,000 needed to set up a trust fund of 325,000 shares, 12.25 per cent of the equity. The shares are issued to staff over five years on the basis of 100 shares for each year of service, with a minimum of three years service and a maximum of 1,000 shares.

At Hampshire-based Provincial Bus, 189 employees each invested £750. Their combined stake of over £140,000 triggered lending from Barclays Bank and from Unity to allow an Esop which then bought the group from the National Bus Company. Another scheme is being established at Coventry Press Works, a management and employee buy-out from Armstrong Equipment.

Unity believes that Esops offer the prospect of stable, long-term, employee shareholdings. Conventional share options, schemes can effectively be disguised cash bonuses since employees frequently sell out and take their profits as soon as it is possible to do this.

The US definition of an Esop is much broader than the Unity model and covers everything from profit sharing from SAYE schemes. In Britain, the latter form of scheme is becoming increasingly widespread. A Coopers & Lybrand survey published this year revealed that of Britain's 200 largest companies, 67 per cent have some form of SAYE share option scheme.

Philip Coggan

British Transport Advertising

Wall removed

IN MARKED contrast to the hullabaloo surrounding the flotation of Rolls Royce, British Airways and BAA, British Transport Advertising - formerly British Rail's poster advertising subsidiary - slipped almost unnoticed into the private sector earlier this year.

BTA's shares were not offered to the public at all, but were bought up by eight senior managers and a consortium of institutional investors. How much they paid has not been disclosed, but industry sources suggest that the company was valued at around £50m when the buy-out was completed at the end of September after lengthy negotiations.

Created by Act of Parliament in 1961, BTA's role was to sell advertising on behalf of the UK's nationalised industries and public utilities - including Associated British Ports and the British Waterways Board, as well as British Rail and the National Bus Company.

It now sells advertising for some 15,000 poster sites on British Rail stations, and a further 10,000 roadside sites on British Rail land, including four giant posters above the busiest road in Europe, London's Cromwell Road, where annual revenues exceed £100,000. It handles a further 15,000 posters on the sides of buses.

This gives BTA approximately 10 per cent of the UK poster advertising market and annual turnover of about £20m. Over half of this derives from the business with British Rail which has been safeguarded for the next five years.

Up until the buy-out, BTA was prohibited by law from undertaking work for the private sector and it was thus unable to compete with similar-sized companies such as MAI and Mills and Allen. Mr Gordon Sykes, head of the management team and BTA's finance director since 1973, is gratified that the company is now 'freed from

statutory constraints' and ready to expand into new markets.

'Liberation is, however, a double-edged sword,' Mr Sykes adds. 'Up until now, there has been a wall surrounding our area of business beyond which we weren't allowed to operate. On the other hand, our competitors weren't allowed to come within that wall. The wall has now been removed altogether.'

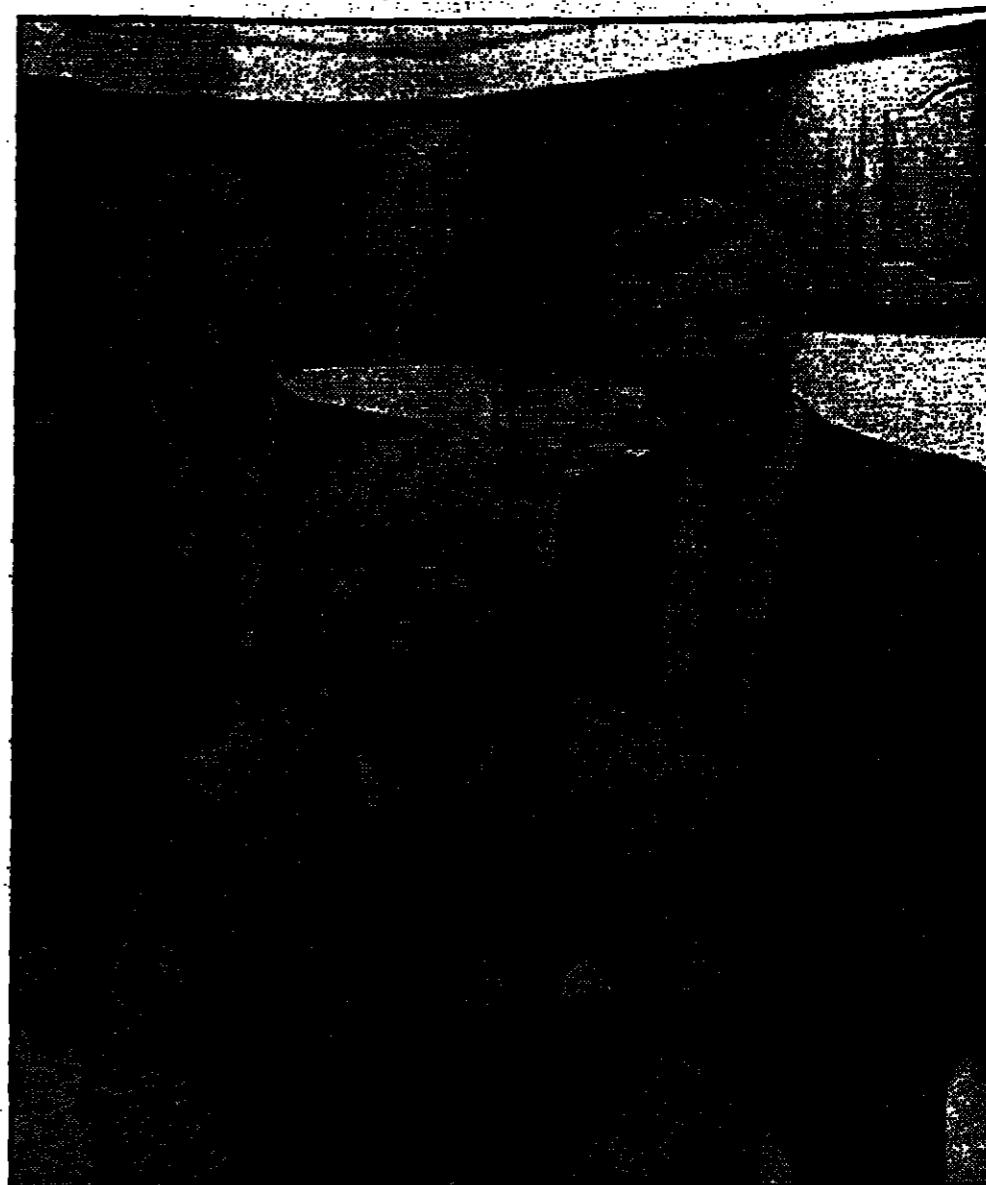
The trouble for BTA was that the privatisation of the NBC - a process initiated by the 1984 Transport Bill - and the gradual sell-off of much of British Rail's surplus land - left it with a dwindling amount of business which it was statutorily unable to recapture. It was this consideration, as much as a policy of promoting competition, that prompted the Government to put BTA out to tender.

The process was much complicated by the company's parentage - until only last year, it was owned jointly by the NBC and the British Railways Board. After it had been transferred to British Rail's exclusive ownership, offers were invited in earnest last Autumn. Mr Sykes estimates that the offer from the management had to compete with 10 other sealed offers, whittled down from some 50 preliminary enquiries.

Whether the offer from the management was the highest bid has not been disclosed. Nor have any of the specific details of the financing arranged as it was by Midland Montagu Ventures, which has taken a minority stake in the newly-liberated company.

Mr Sykes and his colleagues see freedom as a possibility only in the long term. In the short term, they aim to concentrate on retaining bus business as more and more of the regional bus companies enter private hands - and on winning contracts with municipal bus companies.

David Waller



John O'Connell, managing director, (left); Derek Hunt, chairman and chief executive, MFI Furniture Group; Robert Smith, managing director, Charterhouse Development Capital

MFI buy-out

Four times record

BUY-OUTS leaped into the 'serious money' league earlier this month when the managers of MFI, the furniture division of Asda, negotiated control of their company in a deal worth £71.5m - four times the previous record for a UK buy-out.

Just two years after Asda merged its food retailing activities with those of MFI, the stock market's growing disenchantment with the combined companies' performance prompted a renewed separation. MFI's profits had marked time around the £65m level since completion of the deal despite increases in turnover and in the sales space in its stores.

On October 5 MFI's management, headed by Mr Derek Hunt, the chairman, announced agreement had been reached on a buy-out of the company, to be renamed MFI Furniture Group. A consortium of City institutions provided the bulk of a £100m equity package, while an international banking group headed by Chemical Bank provided £48.5m of loans. In addition, the banks put up £35m of working capital.

With the institutions taking up nearly 60 per cent of the equity, the remainder was shared among Asda, which paid 25.2m to retain a 25 per cent stake in MFI, Mr Malcolm Heston, owner of Hygena, the fitted kitchens manufacturer which was acquired by MFI as part of the deal, with 10 per cent; Chemical Bank, which took 5 per cent in payment for an interest-free loan; and the MFI management.

The deal involved an unusually large number of MFI managers. A total of 360 took an initial holding of 3 per cent, though this will increase to 10 per cent if targets are met, and up to 28.25 per cent if they are exceeded. The other shareholders will be scaled down to give the

managers these extra shares. Individual commitments ranged from between £200 and £3,000 from store managers up to £50,000 from Mr Hunt.

The 'ratchet' requires MFI to come to market within three years at a pre-determined value, though the buy-out team refused to say what the target was. If stock market conditions deteriorate to the extent that a flotation is not possible, their shareholding will be calculated on the basis of pre-tax profits.

The MFI deal (which easily exceeds the previous record buy-out of Lawson Tandon, RAZ Industries' packaging business, for £17.3m in 1985) marks a watershed in the UK buy-out field, said Mr Robert Smith, who headed the team from Charterhouse Development Capital which negotiated the purchase.

'This deal shows that the £1bn buy-out is possible and can be financed in London,' he said. Despite their growing popularity, buy-outs in the UK have trailed well behind their counterparts in the US in terms of size. Beatrice Industries holds the US record with a \$8.2bn leveraged buy-out which has produced a series of large disposals in recent months.

The point has now been reached, however, when both management teams and the banks are familiar enough with the buy-out concept to attempt more ambitious transactions.

There was tough competition to lead the lending consortium from a total of six banks, including Standard Chartered and National Westminster in the UK, one Continental and two other US banks. But Chemical won on the grounds that it was able to offer the fact it could take the entire deal onto its books before syndicating it out to other banks, Mr Smith said.

To ease the interest burden

on MFI in its early years, Chemical is providing £50m worth of the lending interest-free for three years, and £155m interest-free for one year. Interest foregone on the £50m slice of the loan amounts to about £20m on a compound basis - for which Chemical will receive a 5 per cent equity stake.

While these interest holidays will be welcome to the MFI management, the financial ratios of the deal are not oppressive. The £190m of equity set against £48.5m of term debt (repayable over 8 1/2 years) is well within the usual UK ratio of 3 or 4:1.

The MFI management team faced competition for the company from a number of trade buyers but a buy-out had two special attractions for Asda. It allowed the food retailing group to retain a 25 per cent holding and also allowed the involvement of Mr Healey, who was bought out of Hygena for a mixture of cash, loans and a share stake in the new company.

The loan consortium comprised Charterhouse Bank, Banque Paribas, Credit Agricole, The Industrial Bank of Japan, National Westminster Bank and Standard Chartered Bank.

The institutions providing equity for the deal were Charterhouse Management Buyout Fund, CIN Industrial Investments, Citicorp Venture Capital, Globe Investment Trust, and MJH Nightingale.

The MFI deal means Charterhouse has arranged both the largest buy-out and buy-in in the UK - though when the purchase of the UK side of Woolworth from its US parent took place in 1982 for £210m in what would now be known as a buy-in, the term had yet to be applied to this sort of deal.

Charles Batchelor

Talking about a management buy-out? Talk to us.

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You may well feel you could bring this about if only you were able to control your own destiny and carry through your best ideas.

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Price Waterhouse



Campan Group, at £100m one of the largest UK buy-outs, was created in June from the contract services division of Grand Metropolitan, which has been streamlining down its diversified operations to concentrate on its consumer businesses.

Following the arrival of Mr Gerry Robinson as head of a new management team three years ago, the division had recovered from an overall loss to steadily increasing profits. Pre-tax profit is expected to rise to more than £10m on turnover of £270m in

the year ended September 1987, from £18.2m profit on turnover of £237m the year before.

The five-man management team invested a total of £250,000 for a 0.5 per cent shareholding which they plan to increase to 25 per cent if they meet performance targets. The members of the team are: (standing left to right) Francis Mackay, Gerry Robinson, Richard Dickson and (sitting, left to right) David Harris and Chris Rees.

The rest of the capital structure, which was agreed

on after eight weeks of negotiations led by SI, comprises £30m of equity, £30m of preference shares, £50m of bank debt - a total of £110m which just exceeded the purchase price.

Factors in favour of a buy-out were the fact that the division was only half way through its recovery programme, which left continuing potential for growth; the nature of the contracting business as a powerful generator of cash; and the apparent desire of rival trade buyers to acquire only part of the business.

EX-110-150

SECTION IV

FINANCIAL TIMES
SURVEY

The decade before
sovereignty reverts to
Peking starts with an
economic boom. It
attracts different

interpretations, as does the new
headquarters of the Bank of China.
Meanwhile, warns David Dodwell,
prosperity veils world trade problems
that have nothing to do with China.

Decade of
the dragon

THE BANK of China's new
headquarters building, now
emerging skyward from its founda-
tions in Hong Kong's central
financial district, will soon be
towering over its neighbours -
including the Hongkong and
Shanghai Bank.

The dominating presence of
the new headquarters is power-
fully symbolic, as Chinese insti-
tutions in all sectors of Hong
Kong's economy begin to play
an increasingly noticeable role.
Leaving nothing to chance, the
Bank of China's supposedly
unsuperstitious directors are
insisting that contractors have
the first phase of the building
ready by August 8 next year -
the eighth of the eighth, eighty-
eight. Needless to say, among
the superstitious Hong Kong
Chinese, the number eight is ex-
tremely auspicious.

The building says a lot about
China's commitment to Hong
Kong less than a decade before
Peking regains sovereignty over
the British territory - not only in
terms of cash investment, but
also in its willingness to accom-
modate whimsical local super-
stitions that are entirely at odds
with the "scientific socialism"
that is supposed to prevail over

the Chinese border.

As local banks have, over the
past year, competed for their
share of fast-increasing retail
banking business, none have
been more aggressive than the
Chinese "sister banks" that
make up the Bank of China Group. They have acquired all-
ing local banks, slashed mort-
gage lending rates, and lent to
industry on terms unacceptable
to most other banks, in their bid
for greater market share.

Some have seen this as evi-
dence that mainland Chinese
institutions are bent on "taking
over" Hong Kong ahead of 1997.
Others say the Chinese are only
putting their money where their
mouths are, ensuring con-
fidence is maintained, and show-
ing that they have faith in the
territory's future.

The issue is symbolic in Hong
Kong of an economic and politi-
cal schizophrenia that makes it
possible to interpret almost any
set of facts in entirely contra-
dictory ways.

Take Dr Ingo Walter, Profes-
sor of Economics and Finance
at New York University's
School of Business Adminis-
tration, who said in Hong Kong
early this year that the territory

was "a manufacturing giant, but
a financial dwarf", destined to
become a satellite of the Tokyo
market, rather like Zurich in re-
lation to London.

For those who say Hong Kong
is the world's fourth most im-
portant financial centre, this is
a ferocious slap in the face. It is
a claim that also sits uncomfort-
ably with the fact that Hong
Kong boasts 154 licensed banks,
and almost 300 licensed and
registered deposit-taking com-
panies.

Dr Walter's challenge ap-
pears to focus on Hong Kong's
local retail banking market,
where he says foreign banks
"cannot compete", and on an in-
terest rate cartel that guaran-
tees local banks more generous
interest rates than almost any-
where else in the world.

In contrast to Dr Walter, take
Mr Shijuro Ogata, deputy gov-
ernor of the Japan Development
Bank, who talked a month ago of
Hong Kong and Tokyo serving
together "as right ear and left
ear" to multinationals in the
Asia-Pacific region.

Arguing that Hong Kong's im-
portance as a financial centre is
unlikely to be undermined by

Tokyo, he talked of qualities in
Hong Kong "that cannot easily
be found elsewhere, and for
which we have admired Hong
Kong so much".

He pointed to the free flow of
goods, services and capital, effi-
cient functioning of the price
mechanism, prudent market
practice, innovative entrepre-
neurship, a highly educated
workforce, non-inflationary fi-
scal and monetary policies, sta-
ble exchange rates, a liberal tax
system, political and social sta-
bility, a free flow of informa-
tion, and an equitable legal sys-
tem as factors cementing the
territory's importance into the
future.

"Last but not least," he said,
"Hong Kong provides a rare
combination of east and west -
the marvellous harmony of
neo-Confucianism from the east
and laissez-faire from the west."
One wonders whether Dr Wal-
ter and Mr Ogata are talking
about the same place.

Take also the heated debate
over political reform that has
sizzled ever since the signing
in 1984 of the Sino-British
joint declaration on Hong
Kong's post-1997 future. A com-
munity committed to the Con-
fucian philosophical ideal of con-
sensus is irreconcilably split
over political reform, and
whether China should be re-
garded as a potentially malevo-
lent force, from which Hong
Kong has to be insulated, or a
fast-liberalising economy in
which Hong Kong can and
should play an emancipating
part.

There is more schizophrenia
interpreting Hong Kong's cur-
rent economic boom. Some hail
double-digit economic growth
(based on export growth of more
than 30 per cent), non-existent
unemployment, soaring corpo-
rate profits, and a stock market
rising high into uncharted ter-
ritory as proof positive that the
colony is facing the future with
unshaken confidence.

Others say the boom has been
fuelled by manufacturers who
are urgently accumulating all
the wealth they can before
jumping ship ahead of 1997.
They point to the steady exodus
of Hong Kong families to Cana-
da, Australia and the US, and
substantial overseas invest-
ment, as evidence of local peo-
ple preparing for the worst.

They say many of the recent
flotations on the stock market
are motivated by a desire to dis-
invest, allowing families that
have, until now, had all of their
wealth tied up in the family
company to liquidate a portion
of these funds - and invest them
abroad - while the market re-
mains buoyant.

Government officials are, not
surprisingly, keen to staunch
such a gloomy interpretation of
an economic boom that is the
envy of many countries world-
wide. They do not dispute vari-
ous sets of emigration statistics,
but contend that emigration has
been a normal state of affairs in
Hong Kong almost since Britain
took colonial control in 1842.

They also say with justification
that many of those emigrating
tend to return two or three
years later once their "bolt hole"
has been secured.

In particular, they say the
thousands of students who
leave Hong Kong every year for
further education in Canada,
the US, Australia and the UK
normally return after three
years with skills they could never
have acquired in Hong Kong.

A striking development which
is only now beginning to be ap-
preciated, and which throws
doubt on some of the more ex-

travagant claims of the dooms-
day theorists, is the remarkable
scale on which Hong Kong in-
dustrialists have in recent years
invested in mainland China,
and transferred manufacturing
operations there.

According to estimates
gleaned from officials in man-
ufacturing in the Pearl River delta
close to Hong Kong, and to evi-
dence accumulated from in-
dividual manufacturers in the
territory, more than a million
people in Hong Kong's Chinese
interland are now working ex-
clusively for Hong Kong manu-
facturers - either in joint ven-
tures, or processing goods for
them. This means that more
than half of Hong Kong's manu-
facturing workforce is now in
mainland China.

Early claims that these invest-
ments were "patriotic tokens",
intended to buy political insur-
ance, rather than to make pro-
fits, now appear rather thread-
bare, since many of the ter-
ritory's leading toy and elec-
tronic manufacturers have by
now shifted their entire manu-
facturing operations into the
mainland, retaining staff in
Hong Kong for design work,
quality control, and interna-

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national marketing.
Despite the current economic boom, Hong Kong does have headaches that have little to do with China. Most serious is the threat of protectionism, and dependence on world trading forces that are outside the economy's control.

There is still concern that a weakened US presidency shifting into a presidential election year will be more than usually susceptible to protectionist lobbies that remain strong in both the senate and the Congress. But fears do not appear to be as great as they were even a year ago.

Hong Kong lobbyists in the US claim they are making progress in establishing Hong Kong as a "special case" in Asia, a model of free trade that can only be penalised by protectionist legislation at the expense of the US Administration's own credibility as an advocate of fair trade.

This explains in part why the US Administration has not exerted pressure in Hong Kong for the local currency to float upwards in value against the US dollar - as has been the case with Korea and Taiwan, two of Hong Kong's fiercest competitors.

It has, nevertheless, been welcomed in government that Hong Kong's long-standing dependence on the US export market has been diluted as Hong Kong dollar-denominated exports have been increasingly competi-
tively priced in Japan and Eu-
rope.

Continued on page 10

Well-established



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EXCEED US\$91 BILLION.

HONG KONG 2

David Dodwell on the extraordinary surge in the economy

Exports fuel the locomotive



Mr Piers Jacobs forecasts a budget surplus of HK\$5bn

WHEN HONG Kong's half-yearly economic report was published recently, news that the Government had revised upwards its calculation of economic growth last year, from 8.7 per cent to 11 per cent, passed without elaboration, tucked into a statistical annex.

Anywhere else in the world, news that the economy had grown more than 25 per cent faster than previously realised would have been splashed under banner headlines across the front page of every local newspaper - as would the fact that this put Hong Kong among the world's fastest growing economies.

The locomotive force behind this growth - expected to reach 12 per cent in real terms this year, to make the second successive year of double-digit growth - is a remarkable export performance.

In the first half of this year, domestic exports grew by 27 per cent in real terms to HK\$55.8bn, while re-exports leapt by 50 per cent to HK\$60.1bn, reasserting the territory's importance as an entrepot for China.

Imports rose by 34 per cent in real terms to HK\$172.0bn. In his half-year review of Hong Kong's economic performance, Mr Piers Jacobs, the territory's Financial Secretary, forecast real growth of 20 per cent, with re-exports up 37 per cent.

This compares with earlier predictions of 7 per cent and 13 per cent for exports and re-exports respectively, and flies in the face of earlier government assumptions that supply constraints would put the brakes on

economic growth over the course of the year. Provisional trade figures to the end of August show no evidence of brakes being applied.

To illustrate the boom, the Government can also point to negligible unemployment, order books full for many months ahead, booming corporate profits, rising wage levels, and inflation still held close to 6 per cent on an annualised basis.

"All these things point to an economy that is performing well," said Mr Jacobs, a man clearly not prone to hyperbole. The factors hidden behind Hong Kong's extraordinary export figures offer interesting insights into the development of the economy. Strongest export growth has been recorded to China (up 69 per cent in value terms in the first half of this year, to HK\$12.4bn), to Japan (up 71 per cent, to HK\$4.1bn) and to West Germany (up 42 per cent, to HK\$6.5bn).

One significant result of this has been that Hong Kong's long-standing dependence on the US export market has fallen sharply. The US remains Hong Kong's most important market, with sales of HK\$32.2bn in the first half of this year, but this modest 16 per cent rise meant that it accounted for just 36 per cent of domestic exports in the six months to June, compared with 44 per cent in 1985.

The surge in both direct exports and re-exports to China, despite strict Chinese import controls, is a measure of the now widespread practice of Hong Kong manufacturers processing goods in the mainland. Raw materials and semi-finished

	1982	1983	1984	1985	1986	1987 forecast
Real GDP Growth (% from prev yr)	2.9	5.1	9.8	5.3	11.5	12.2
Inflation	10.6	8.9	8.5	3.4	2.2	6.0
Current Account Balance (US\$m)	nil	-400	1,700	2,200	1,900	2,000
Exchange Rate: HK\$ per US\$	6.07	7.27	7.80	7.78	7.80	7.80
Trade Weighted Index (1971=100)	90	76	75	78	68	62
Real Trade Weight Ind (1971=100)	97	90	91	96	91	—

Source: NatWest Market Intelligence

manufactures accounted for the lion's share of exports to China, reflecting this cross-border processing business, with textile yarn and fabric alone accounting for 22 per cent of domestic exports to the mainland. The growth in exports to Japan and West Germany arises directly from the sharp depreciation of the Hong Kong dollar against the yen and Deutsche Mark over the past 18 months. This depreciation, which results from the Government's unflinching commitment to linking the local currency to the declining US dollar, has made many Hong Kong products more than 40 per cent cheaper in Europe or Japan than they were a year ago.

This competitive boost has been enhanced by the rise in value of the South Korean and Taiwanese currencies over the past year, which has given Hong Kong industrialists windfall price advantages over their counterparts in Taiwan or Korea.

The surge in Hong Kong's exports not only reflects the hectic activity of local industry, which needs to import most of its raw materials, but also Hong

Kong's increasingly important role as a staging post for imports to China. Hong Kong's main supplier remains mainland China, and since the Chinese currency has fallen in US dollar terms, the inflationary consequences that many countries worldwide would have felt as a result of allowing their currency to fall with the US unit have been greatly diluted.

Japan remains a leading supplier, but the efforts of Japanese manufacturers to maintain their market share as suppliers to Hong Kong industry have meant that the yen cost of imports has not risen in line with the Hong Kong dollar's depreciation. This has again helped to stanch inflationary forces in the economy.

The Government says inflation currently stands at about 5.4 per cent on an annualised basis, and will rise to about 6 per cent by the end of the year. While there is no apparent alarm over the current inflationary trend, there must be some concern that Hong Kong's inflation is now higher than all of its trading partners except Australia.

Another inevitable price being paid for such hectic economic growth is an acute labour shortage in a number of sectors of the economy. Unemployment is at an historic low of 1.8 per cent, and the labour squeeze has led to wage increases averaging 8 per cent in real terms in most sectors of the economy.

The Hong Kong Federation of Industry claimed last month, in a letter to the head of Hong Kong's civil service, that textile and clothing industries were short of about 80,000 workers. Worst hit were cotton spinning and weaving factories, they said, where shortages had forced up monthly salaries by about 25 per cent.

The federation disputes government arguments that the shortage ought to provide impetus for technological upgrading and the purchase of labour-saving machinery. It has also been reluctant to swallow arguments that higher wages were not unacceptable, giving workers an opportunity to benefit from a boom that has seen corporate profits commonly soaring by between 50 and 150 per cent this year.

The federation has called on the Government to allow the import of workers from China and South-east Asia to ease labour shortages, but has found its proposals cold shouldered by the Government.

In the words of one local economist: "Apart from the immense practical difficulties attached to all of the federation's suggestions, the Government thinks this is going to be short term, and is reluctant to be committed to long term solutions that it might not want to afford in the long term."

Government officials also argue that acute shortages are

for skilled, rather than unskilled, workers - and these are in short supply in every country in the region.

Many in government would say that the labour squeeze is far from unwelcome. In an economy where market forces are expected to find the arbiters of economic development, they had hoped that such supply constraints would have started to put the brakes on runaway growth, eliminating the need for any administered restraints.

"We were expecting the squeeze to start showing at the beginning of the year, but it didn't happen," said one government economist. He said government officials had underestimated the extent to which local manufacturers could exploit mainland China's labour resources to sustain their export gains.

The manufacturing sector is not the only one in the economy to benefit from - and to face the problems arising from - such rapid growth. The construction industry, moribund since the collapse of the local property market in 1983, has seen a rapid recovery, but has at the same time suffered labour shortages as acute as any in the territory.

Tourism earnings have also soared. In 1986, a record 3.7m visitors arrived in Hong Kong, spending an estimated HK\$17bn. Visitor arrivals in the first half of this year rose by a further 22.5 per cent, according to statistics released last month.

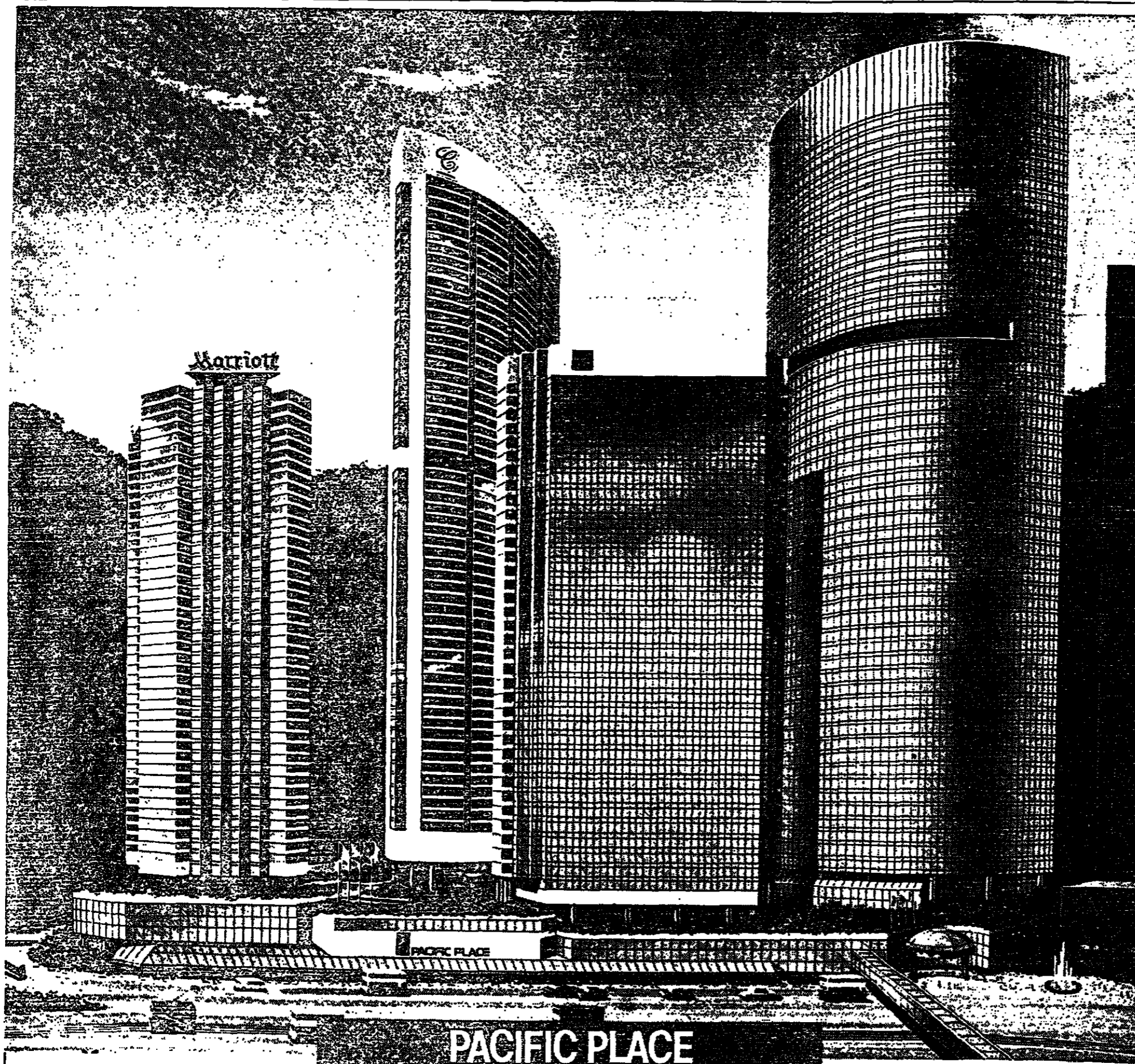
This has made Hong Kong's hotels among the most profitable in the world, with average occupancy levels of 85 per cent. The trade boom has put the local container port at full stretch, and has brought a blush back to the cheeks of most local bankers, which traditionally depend for much of their business on trade finance.

Banks have also benefited from resurgent confidence in the property sector, where lending for home loans has risen strongly. Property prices have not yet risen to the giddy levels of 1982, but are rising strongly nevertheless.

The local stock market has also boomed, with share prices at record high levels, and daily market turnover averaging more than HK\$2bn - compared with less than HK\$200m just 18 months ago.

While stockbrokers and banks have been primary beneficiaries of this stock market boom, the Government has also received a shot in the arm as stamp duties on securities trading have risen to record levels. Mr Jacobs now forecasts a budget surplus of HK\$5bn, and has the enviable problem of trying to trim this surplus without fuelling the present boom.

A problem it may be, but one imagines that many finance ministers worldwide would happily take it on in exchange for the problems their own economies face.

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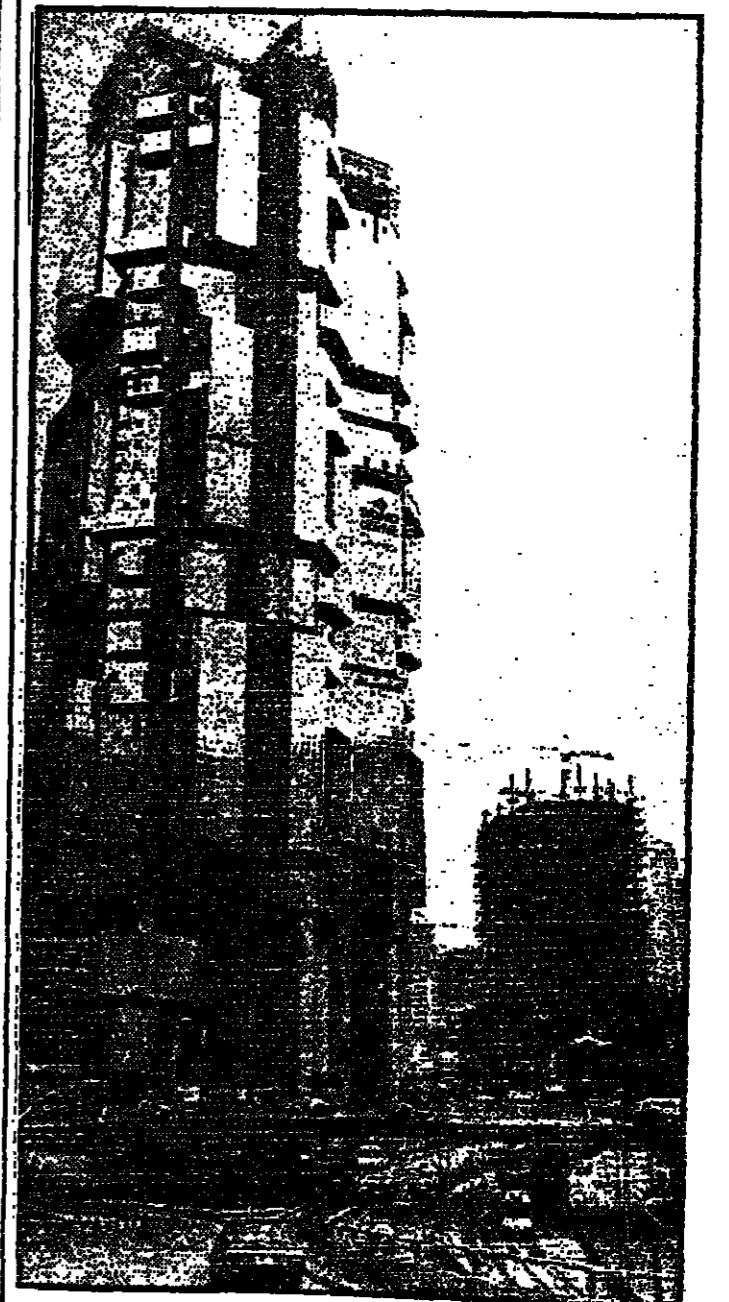
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The new Bond Centre is nearing completion

HONG KONG 3

The rate of activity on the Stock Exchange has been as notable as the climb of the Hang Seng Index

Bulls in control despite fears of inflation

IT HAS been an extraordinary year for the Stock Exchange of Hong Kong, which has celebrated its unification and modernisation in 1986 by continuing and intensifying a remarkable bull run.

Starting the year at around 2,500, the Hang Seng Index of 33 leading stocks surged to nearly 3,000 by February, retreated erratically until the end of April, and then embarked upon a sustained climb that took it to almost 4,000 by the end of September.

Just as notable has been the rate of activity on the exchange. After HK\$15bn in July and HK\$40bn in August, turnover reached HK\$50bn in September, about five times the level of the corresponding month in 1986.

Even at these higher levels, local investors remain bullish. They point out that the Hong Kong market is well supported by fundamentals, with company profits rising rapidly and economic growth probably heading for the 12-14 per cent range for 1987.

"The market basically wants to go up," says Mr Duncan Mount, a top fund manager at Gartmore. "And it is not expensive, relatively. I think the mar-

Stock Market Flotations HK		
	Number of flotations	Capital raised (\$m)
1981	12	3,336
1982	2	75
1983	4	419
1984	8	1,048
1985	5	747
1986	6	2,041
1987 (8 months)	15	2,795

Source: Wardsley Corporation Finance.

ket will trade up to a 20 p/e level." This could take the Hang Seng to 5,000 by the middle of next year.

A rapid growth in credit has fuelled the stock market boom. The various measures of the money supply have been showing growth of the order of 25 per cent this year, and because the Government has chosen to peg the Hong Kong dollar to the US dollar it does not have much scope for an independent monetary policy.

With an undervalued currency, a huge pool of liquidity and

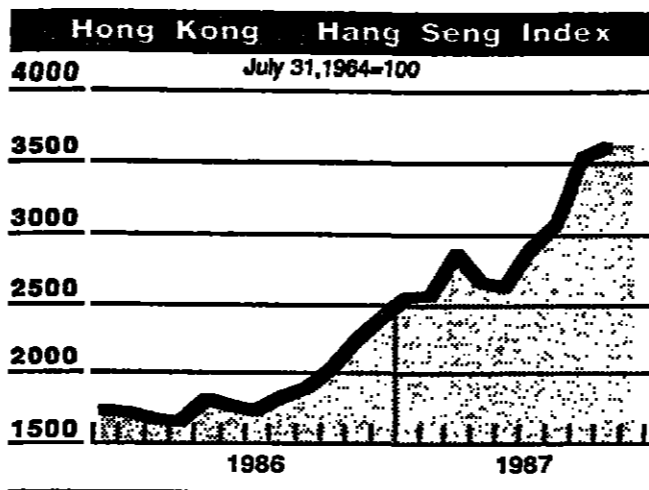
rapid economic growth, Hong Kong is producing the classic conditions for a stock market boom. Inflation is a worry, with fears that it could race away into double digits within the next few months. But right now the bulls are in control.

Hong Kong has had stock market booms before, but the character of this one is rather different from the speculative spree of the 1970s.

Today's equity market is much less an arena for local punters, as it used to be, and much more of an institutional and international market. Part of the more speculative trading has been diverted to the futures market, where the Hang Seng contract has been spectacularly successful.

Local private investors probably still account for 50 per cent of the business, but Chinese investors are these days very much concerned to diversify their assets geographically - one reason why international unit trusts have been in strong demand.

Several of the big British brokers have arrived in force, adding to the longer established foreign institutional firms such as Vickers da Costa and Wico. Hong Kong's reputation as a cowboy's market is unjustified,



claims Mr Carlton Poon, research director of James Capel. "It's no more volatile than many other world markets." But he admits: "It's a small town and rumours can fly around quickly."

On one estimate, the UK brokers now account for 40 per cent of local market business, and have developed a powerful clientele around the world, providing institutional fund man-

agers with diversification and a taste of an exciting, fastgrowing Pacific Rim market.

"By applying international investment techniques one can discover a lot more value than in the more mature markets of the US or the UK," suggests Mr Timothy Beardon, managing director of Crosby Securities, a relatively new firm which provides a research-based agency service.

The stock market boom has attracted an unprecedented number of capital-raising exercises, to the extent that some analysts have been concerned about the market's ability to absorb all the paper. Yet even the huge HK\$10bn rights issues by Cheung Kong and its associates in September only caused the market to pause for a few days.

According to research by Jardine Fleming, well over HK\$40bn has been raised through the Hong Kong equity market so far in 1987, compared with an annual average of a mere HK\$4bn during the previous five years.

The market's ability to absorb these issues can be attributed to the high level of liquidity in Hong Kong, and also to the strong inflow of foreign institutional money.

The new-issue boom has resulted in a lengthy queue of pending flotations, which generally speaking raise little money compared with rights issues and placings involving already listed stocks, but which add colour to the market.

Companies are said to be queuing until next summer for flotations, which are spaced out at a rate of two or three a

Hong Kong Stock Market	
	Total money raised (\$m)
1980	5.5
1981	8.6
1982	1.7
1983	1.1
1984	2.5
1985	2.5
1986	11.1
1987 (8 months)	44.3

Source: Jardine Fleming

month. But the sheer popularity of these offers, which usually attract huge oversubscriptions, is causing problems.

The Stock Exchange is coming under pressure to modify its unusual policy of insisting on having the final say on pricing itself, in many cases overruling a merchant bank's preferred price.

The extreme case was the flotation in August this year of Oriental Press, when a HK\$25m issue attracted applications for HK\$70bn. In cases like this, the sponsoring merchant banks can be bitter at the Stock Exchange's policy of forcing them to float top quality companies

on modest, unselective ratings. Moreover the frenzy of speculation has attracted the criticism of Mr David Nendick, Hong Kong's Secretary for Monetary Affairs. He commented that the Oriental Press subscriptions amounted to HK\$11,000 for every man, woman and child in the territory, producing a level of borrowing which disrupted the money supply and generated a high risk of fraud.

Mr Ronald Li, chairman of the Stock Exchange, deflects any criticism on to the banks for extending too much credit. He also attacks new-issue sponsors for attempting to overprice their offers. "There is a temptation for merchant banks to push to the limit in order to maximise their remuneration," he suggests.

But with more than 30 in the queue for flotation, the companies, at least, must be satisfied with the Stock Exchange's methods, he argues.

His main justification for the role of the Stock Exchange in fixing issue prices, however, is that the public would blame the exchange rather than the particular sponsor of the offer if it failed. The exchange is therefore determined to ensure that the issues go with a swing.

Barry Riley

The Swire Group 1987

Securities

Regulation in focus again

THE BOOM-and-bust cycle is built into Hong Kong's securities industry. Just now the equity market (though not the fixed interest market) is very much in a bullish phase, having shaken off the political nervousness that afflicted it between 1982 and 1984. But can the bust be far away?

The Hong Kong Stock Exchange is a crucial institution, for it can funnel capital into mainland China in a way that Hong Kong's less robust debt markets seem unable to achieve, at least for the time being.

So far this year more than HK\$40bn (over US\$5bn) has been raised on the stock market, an unprecedented figure, and one which reflects, at least in part, the big investments being made by Hong Kong over the border. It may also reflect, however, the desire of some companies to diversify their interests outside China.

The installation of a new trading system in the unified Stock Exchange in April 1986 turns out to have been well executed and impeccably timed.

The system has been coping well with booming volumes which in money terms have recently been running at 10 times the initial level 18 months ago. But, says the exchange's chairman Mr Ronald Li, this, together with the influx of foreign firms to Hong Kong, has put a strain on his member firms' personnel.

Meanwhile, the settlement side of the exchange, which has not been modernised, has been creaking badly. The archaic next day settlement system is generating a blizzard of paper and is infuriating foreign brokers who have no way of getting money out of European or North American clients within 24 hours.

The plan is to set up a central clearing system, involving a book entry central depository. Settlement would probably be on an internationally compatible seven-day basis. But it is not a straightforward thing you can do overnight," warns Mr Li. For instance, it would require legislative changes, such as a provision for exemption from stamp duty.

The Hong Kong Exchange is now installed in ultra-modern buildings, and has done a great deal to shake off its one-time cowboy image. But it remains a colourful place, not at all in the mould of, say, the tightly regulated US exchanges.

The Securities Commission is now grappling with proposals to upgrade regulation to a level more in line with best practice in the US and Europe. Several years ago a Takeover Code was introduced, but in fact contested takeovers have been few and far between recently. Now the focus is on areas like disclosure of dealings and the control of insider trading.

A standing committee on company law reform has been split on whether insider trading should be criminalised. At present, allegations of insider dealing are investigated by a tribunal which does little more than rebuke those found guilty. The committee voted 10:7 against making insider trading a crime, but the powers of the tribunal may be beefed up, to the extent that it could, for example, impose "fines" amounting to several times any illicit gains.

On disclosure, there are proposals to force shareholders to publish their stakes when they reach 10 per cent, rather than the onerous requirement that the 5 per cent level notification which is the law in the UK. The challenge here will be to pierce

the veil of Hong Kong's innumerable nominee shareholders.

Elsewhere, the Government is considering the exchange's request to set up a second tier market. The exchange submitted a lengthy report in May, and awaits a reply.

According to Mr Ronald Li, nearly 200 private companies have expressed interest in the possibility of going on to a second tier market.

Under the proposals of the exchange the second tier companies would be able to float with a market capitalisation of HK\$20m and a two-year track record, against HK\$50m and five years for the main market, where around 270 companies are now listed. But reporting standards would be maintained on the second tier, and venture capital projects would not be eligible.

The upgrading of securities industry standards is an awkward process in Hong Kong, complicated by clashes between Eastern and Western cultures, and overshadowed by the political implications of 1987. Although the Government in theory has extensive powers, it is reluctant to use them to the full.

However, the internationalisation of the Hong Kong securities industry is causing new attitudes to be adopted. To attract big institutional investors from around the world Hong Kong needs to show that it is regulated in accordance with up-to-date standards.

Not only foreign investors but also foreign brokers have become strongly in evidence in Hong Kong. A substantial number of British brokers are members of the exchange, and are active in Hong Kong stocks, and several American and Japanese securities firms provide a local service to Hong Kong investors in US and Japanese stocks.

The next step could be that an American broker will join the Hong Kong Exchange. The first is likely to be Merrill Lynch, which already uses Hong Kong as a staging post in its 24-hour global equity trading business.

With the boom in business levels the cost of a seat in Hong Kong is rising. Nevertheless Merrill does not expect to pay more than US\$100,000, which may be nearly 18 times as much as when the new exchange opened last year, but which compares very favourably with the US\$5bn which would be charged in Tokyo.

Americans with Hong Kong membership will clearly be more determined to sell the leading local stocks to their US clients, and indeed there is already 24-hour trading by Merrill in a small number of Hong Kong equities.

American investment institutions are seen as being potentially very big buyers of Hong Kong stocks. Mr Ronald Li has this month been leading road show to the US to help familiarise US fund managers with the Hong Kong scene.

"People abroad know only about our top 10 issues," says Mr Li. "I don't think that is very fair knowledge." So the Stock Exchange invited 300 top New York investors and securities dealers to a special lunch, and in a wider publicity venture it will be distributing 10,000 copies of a booklet globally.

If the Hong Kong securities industry can build a broader and more international investor base, perhaps the stock market can leave its volatile past behind it, and look forward to a more stable future.

Barry Riley

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HONG KONG 4

The futures market

Second to the US

THE SPECTACULAR success of the Hang Seng Index (HSI) futures contract, introduced by the Hong Kong Futures Exchange (HKFE) in May last year, has shocked even its most ardent supporters.

Turnover has surged more than 14-fold, from a first-month daily average of 1,635 contracts, to more than 24,000 a day in August. In less than 18 months, HSI futures have in terms of volume become the most popular stock index futures outside the US.

The contract is based on HK\$50 per index point, and is worth HK\$180,000 with the index currently at about 3,900. The minimum margin on contracts required from customers was in August raised to HK\$15,000, from HK\$12,000.

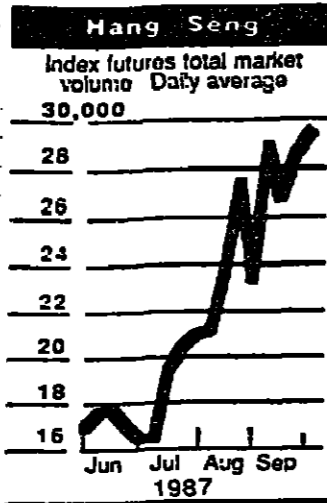
But it has not been plain sailing all the way. It became apparent earlier this year that some heavyweight investors were manipulating HSI stock prices during late trading on settlement days.

As a consequence, a new system for determining the HSI's closing price is to be introduced at the end of this month. Replacing the HSI's closing price, as the basis for settlement of futures contracts, will be an average of 42 index readings taken on the settlement day.

Dr Kim Cham, HKFE chairman, says there was a danger that eleven-hour manipulation of stock prices, which became known here as the "witching hour", would "scare off" some investors. He adds that the new settlement method is "in the long term interest of the market", and will protect its integrity.

A number of traders do not agree, and feel the new system causes more problems than it solves. Mr Miles Geldard, of James Capel, says of futures check: "If you have sold futures to hedge a portfolio of stocks, it's not much use if you have a future that expires on an average price during what might well be a very volatile day. You want a hedge that matches the closing prices of your shares."

The new system will also make life more difficult for arbitrageurs, says Mr Geldard. "It adds a great deal of uncertainty for an arbitrageur. If he wants to liquidate on the expiry day, he will now have to liquidate all through the day at very even intervals, in order to come close to reaching equality with the settlement price."



Futures traders argue that, as the problem was with trading of stocks on the cash market, reform should have been aimed at halting the late manipulation of share prices. Mr Geldard says: "The attention it drew to the inherent problems of the stock exchange was very valuable."

In Hong Kong, investors in the stock market cannot deal beyond the published bid and offer prices at the close of trading, but they can compete for the last trade of the day. This is the crux of the problem, say the futures men, because between five and 10 points' movement on the HSI was being effected in late trading early in the year.

Traders expect the new system to have a damaging impact, but feel the enormous success of HSI futures will enable the market to absorb any setbacks comfortably.

Liquidity on the local stock market has sharply increased since the introduction of stock index futures. Daily turnover of HK\$500m was considered healthy early in 1986, but it now regularly tops HK\$3bn. Futures traders say their contract has a fundamental influence on trading patterns, and advise all investors to be aware of the HSI contract even if they don't actively participate.

They say US institutions have led overseas participation. Singapore traders are also active, while Japanese and British concerns have shown an initial shyness. Mr Geldard says UK institutions are "beginning to test the waters", and he thinks that before long "quite a number"

will be using HSI futures. Envyed by the success of the HSI futures, the HKFE announced last month that it planned to introduce a 90-day HK\$ interest rate futures contract in early December. The HK\$1m contract will be traded on the spot month, and two consecutive months.

A unit contract price of HK\$24.65 for a 0.01 per cent interest rate movement is to be used. There will be an initial margin of HK\$5,000, and a maintenance margin of HK\$3,500.

Dr Cham says 90 of the exchange's 130 members have shown interest in trading this new contract. He feels it will appeal mainly to banks, and to institutions using it to hedge funding requirements; and he sees the new contract diversifying trading activity on the HKFE, which otherwise trades only commodity futures. He says the HK\$ interest rate contract is a counter-cyclical instrument for the exchange, in that future upward movement of interest rates could stem activity on the stock market, and by extension HSI futures.

The interest rate contract would then become more active, and could perhaps offset to some degree lower volumes for HSI futures trading.

Traders expect the contract to be widely used by banks, because of the inherent volatility of local interest rates. The local currency is pegged to the US dollar at US\$1 to HK\$7.80. Upward or downward pressure on the local currency is thus equalised by interest rate adjustments.

Another move to diversify market activity is the proposed introduction of an associated membership category. Approved in principle by government, the exchange now awaits the green light. Up to 300 associates will be admitted. They will trade through floor members, a move that will help relieve current pressure on trading-floor space.

Further down the line will follow a Eurodollar interest rate contract, and US dollar-yen and US dollar-Deutschmark currency futures. A firm timetable for their introduction has not been set. Dr Cham says these contracts will be examined after the introduction of the HK\$ 90-day interest rate contract.

Kevin Hamilton



Forget about 1997, it's as safe as Jersey

Unit trusts

Chinese warm to a new concept

SUDDENLY THE financial pages of Hong Kong newspapers are full of advertisements for unit trusts. So many are being launched that the resources of the Securities Commission have been stretched out for four months or more.

Recently the waiting list of trusts for authorisation numbers more than 70, though that is probably an exceptionally high total, because of the immensity of the colony's Money 87 exhibition, scheduled for late October, which has prompted a rush of newcomers.

To pay for extra staff, the Commission is proposing to levy charges on unit trusts for the first time, of HK\$15,000 on application and HK\$2,700 annually.

This could have the effect of shaking out a few trusts which are authorised in Hong Kong but are not actively marketed there. Nevertheless the current 250 or so authorised trusts seem set to increase further in numbers as the new applications are processed.

According to Mr Stuart Leckie, of the Wyatt Company, actuaries and consultants, authorised unit trust funds aggregated some US\$13bn in July.

Because many of these trusts are marketed around the world, it is impossible to say with any precision how much of this wealth relates to Hong Kong residents. But it is clear that the

Chinese population, in particular, has taken up the unit trust concept for the first time, and with a considerable degree of enthusiasm.

Originally unit trusts were sold in a small way to locally based expatriates, and Hong Kong was part of the broad global network of offshore investment. Chinese investors preferred to put directly in the Hong Kong stock market.

But the Sino-British agreement and the boom in stock markets worldwide appear to have changed that attitude. A desire for geographical diversification has become evident, and unit trusts have proved attractive vehicles for investing outside Hong Kong.

Chinese investors are not very interested in local specialist trusts, however. According to Mr Alan Smith, managing director of Jardine Fleming: "The fund we sell least of is our Hong Kong trust."

JF, probably the biggest operator in the field, running unit trusts worth US\$3bn, broke new ground in August this year by opening a unit trust shop on a lower floor of its Central district skyscraper headquarters.

Its rival merchant bank Waddell has been fairly slow to develop into unit trusts, perhaps through a reluctance to compete with the deposit-gathering objectives of its parent, the Hongkong Bank. Its unit trust operation is only about a tenth as large as JF's. However, War-



Mr Alan Smith: but local trusts don't excite them

Unit trusts		
	No. of trusts	Assets (US\$ bn)
mid-1979	80	1.0
mid-1982	120	3.9
mid-1985	170	7.5
mid-1987	240	13.0

Source: The Wyatt Co.

dley is now set to retaliate by opening up a specific unit trust sales area within the head office of its parent.

Mr Nigel Tulloch, managing director of Waddell Investment Services, emphasises the spread of geographical spread

which has finally overcome the damage done to the image of unit trusts in Hong Kong by the excesses of Bernie Cornfeld and his Investors Overseas Services Group in the late 1960s. "It has become possible to sell unit trusts to the general public in a big way," he says.

Mr Duncan Mount, managing director of Gartmore, a subsidiary of the UK-based British & Commonwealth group, is one of the best-known Hong Kong fund managers. Gartmore now runs Hong Kong authorised unit trusts worth US\$400m, and an indication of the scale of the current boom is that Gartmore's intake of funds has jumped tenfold over the past year, to a current rate of between US\$3m and US\$5m a week, largely pulled off the page by advertisements in three newspapers.

"We estimate that 85 to 90 per cent of the new money is coming from local Chinese individuals," he says. The big seller is a Fund of Funds, which alone accounts for US\$160m of the money being managed.

So far the foreign-owned investment management groups have controlled the unit trust industry, but Chinese banks are now moving in. The first Chinese-sponsored funds - the Nan Po World Growth Fund and World Income Fund - are being launched this month by Nan Yang Bank. Curiously, Nan Yang is part of the Bank of China group, and the decision of stockbroker James Capel, an

autonomous subsidiary of the Hongkong Bank, to manage the Nan Yang funds on a joint venture basis has raised a few eyebrows locally.

But despite the implied mainland approval provided by these communist unit trusts, political uncertainty remains a key element in the development of unit trusts in Hong Kong.

The 1987 factor has implications for the structure of locally registered unit trusts. Increasingly, the concept of a "successor trustee" is being adopted, so that if, say, the Hongkong Bank is trustee for a fund, an offshore associate of the bank in, say, Jersey, Bermuda or Luxembourg will be nominated to take over should the Hong Kong trustee become ineffective for political reasons.

For this reason, local unit trust managers argue that Hong Kong is in practice just as secure a base for a fund as, say, Jersey.

According to Mr Peter Pearson, managing director of Fidelity International in Hong Kong, trusts can be established for half what it costs in Jersey, and there is good co-operation between the Government and the unit trust industry. There has been not a single rogue trust in the colony since 1973. "Investors' money is safe," he declares, but he admits: "We don't like talking about 1997 all that much."

Barry Riley



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HONG KONG 5

With no foreign exchange controls and minimal tax burdens, fund managers find the territory an excellent regional hub

Money flows two ways as residents diversify

FOR A centre that had no professional fund management capability until the founding of Jardine Fleming in 1970, Hong Kong has come a long way. Jardine Fleming has retained its head start, and has US\$3.7bn under management, but it is now just one of around 60 fund management operations in the territory. Other leaders include Winstone, which manages US\$7bn worldwide, and Schroeder Asia.

According to the Winstone Company, which monitors investment funds within Hong Kong, the main institutional sources of funds are the pension funds - worth perhaps US\$7bn - and the

unit trusts, with authorised funds estimated to be worth US\$13bn last July.

However, this does not count a possibly substantial volume of money managed locally for foreigners: indeed, JF was originally established as a partnership with the London merchant bank Robert Fleming, in order to handle European money coming into the Far East.

Hong Kong remains a highly attractive centre from which to survey the far eastern scene. "The ethos of the place is much more international than anywhere else," says Mr. Alan Smith, JF's managing director. "We have a critical mass of fund

managers. And it is an exciting place to be."

"People in, say, London read news which is London-focused," he argues. "There is a much greater openness of thinking in Hong Kong - we don't feel that we are living in the most important place. In a period when international markets have been moving strongly, Hong Kong has an advantage over many other places."

According to Mr. James Filmer Wilson, chairman of Gartmore in Hong Kong, the territory "feels the pulse of the Far East". It does this, he thinks, better than Tokyo, which suffers from the high costs and inspection of a major financial centre.

Tokyo is fine for individual expatriates, he thinks, but marriage makes a difference. "It's very difficult keeping a family happy in Tokyo for more than a couple of years," he says.

The Japanese capital is, of course, vastly bigger as an asset management centre - funds of something like US\$300m are managed there - but there are severe restrictions on the business that can be done (though a new, more liberal fund management licensing system has been introduced this year) and costs are astronomical.

Many foreign fund managers feel they have to be in Tokyo, almost whatever the immediate expense. But their objective is to position themselves to gain

Japanese institutional business rather than to use Tokyo as an international investment centre.

Significantly, most investment management groups tend to designate their Hong Kong office as their Asian headquarters, but to operate a quite separate Japanese branch in Tokyo.

At Thornton Management (Asia), Mr. Jim Mellon, the managing director, complains of the impact of the booming economy, which are making it hard to recruit both professional fund managers and administrative staff. "There is absolutely no one around with any experience," he complains. "If you train them they will go away to the highest bidder."

Although Thornton is UK-controlled it is notable for having chosen Hong Kong as the location for its biggest office, offering the best coverage of markets throughout the Asia-Pacific region.

Thornton is small: but one of the biggest international mutual fund groups, Fidelity, is also strongly established in Hong Kong. "The other regional countries are hopelessly smashed in red tape," says Mr. Peter Pearson, Fidelity's managing director in Hong Kong.

But Hong Kong is an excellent regional hub. Communications are good, there is plenty of expertise in computer systems, and English is widely spoken.

And the Government has a positive attitude to fund management: there are no foreign exchange controls, and only minimal burdens from tax and other charges (though the Securities Commission, buried by a landslide of applications for authorisation, is about to impose charges on unit trusts).

All the same, he admits that the territory has the disadvantage of lack of proximity to major European and American markets - for example it is an awkward 12 hours away, in terms of time zone, from Fidelity's headquarters in Boston.

One feature of Hong Kong for the international fund manager is the existence of a strong two-way flow of money. Hong Kong residents are diversifying their investments - mostly elsewhere in the Asia Pacific region, but also to some extent in North America and Europe - and at the same time many foreign institutions are buying into Hong Kong's attractive companies, often on the China Gateway argument now that the increasing level of trade with the mainland is visibly boosting Hong Kong's economy.

According to James Filmer Wilson, of Gartmore: "Any pension fund anywhere in the world which is in a position to invest on an international basis should certainly have at least 2 per cent in Hong Kong."



Barry Riley

The ethos is international



The Stock Exchange feels the pulse of the Far East

China funds

Punting over the frontier

WITH NAMES like Octopus, Little Dragons, Kangaroo, and Tiger arriving on the Hong Kong unit trust scene in recent years, it is hardly surprising that a number of companies have set up investment vehicles aimed at capitalising on China's economic reforms.

Thornton Management's Hong Kong and China Gateway Fund (HKCGF) and Baring International's China and Eastern Investment Trust (CEIT) both claim to provide investors with the opportunity to buy a piece of China's rapid development.

But critics say these funds are marketing gimmicks, aimed at inducing naive investors to part with their money. The funds, which have most of their investments in companies based outside China, are little more than Hong Kong funds dressed up as "China plays", says one Hong Kong analyst.

Mr. David Harding, a Thornton director, says such arguments miss the whole point of investment in China. "Our argument is that you don't really want to be directly invested in China, anyway. That's a mug's game," he says.

The US\$35m HKCGF has about 4 per cent of its assets in companies that are directly invested in China, and another 5 to 10 per cent in companies that have a large portion of business activities related to China. The remainder is in Hong Kong stocks.

"The aim of the fund is purely to invest in companies that benefit from China. They don't actually have to be doing business with China to be benefiting from China," says Mr. Harding.

He describes Hong Kong as "a warrant on China", and points to the general benefits that companies such as Hutchison Whampoa have derived from China's modernisation.

The huge increase in trade between Hong Kong and China has seen enormous growth in imports and exports, which in turn have benefited the group's container terminals, says Mr. Harding.

Baring's CEIT, a closed-ended vehicle listed on the Hong Kong and London stock exchanges, has a similar philosophy. "Our policy is to invest in businesses which are China-related, which have a predominant weighting within their businesses towards China," says a spokesman.

Direct investments in China account for some 10 per cent of CEIT's roughly US\$44m of assets. The remainder is predomi-

nantly in Hong Kong companies with China-related business, and a portion of assets are in similar Japanese companies.

The performance of these two trusts has been strong in the last year. With Thornton's HKCGF providing unit holders with a 95.3 per cent increase on their investments. Baring's CEIT's net assets increased by some 96 per cent in the year to June, says the spokesman.

Despite such growth, general Hong Kong funds have done better. The 10 authorised funds provided a median return of 102 per cent in the year to June, and Baring's General Hong Kong Fund chalked up a near-132 per cent growth in net assets.

Jardine Fleming is the latest company to enter the fray, claiming that its JF China Investment Company (JFCIC) is the first investment vehicle to invest directly, and exclusively, in China.

JFCIC's shareholders include the British-based merchant bank Robert Fleming, an affiliate of the World Bank, and Peking-based Citic Industrial Bank. The company, launched in July with a working capital of US\$20m, is not yet open to outside investors. Jardine Fleming says it will consider a listing in Hong Kong Company when it has established a track record.

JFCIC's one investment to date is in Hong Kong-based Applied Electronics, a manufacturer of electronic toys. JFCIC acquired a US\$1m stake through a private placement of shares.

Applied electronics has virtually all of its workforce in China, says Mr. James Ernie, a Jardine Fleming director, who argues such an investment cannot be compared with a shareholding in Hutchison Whampoa, or Jardine Matheson.

"The investment combines both caution and a high return, which is just the sort of situation one would like to find," says Mr. Ernie. He says another 30 to 40 projects have been examined by JFCIC, and that it is probable another investment will soon be made in a Hong Kong company which has a major part of its business in China.

Whatever the critics say about such investment vehicles, there seems no doubt that local investors are keen to punt on China's modernisation. For the meantime, they are probably quite happy if performance is assisted by Hong Kong's surging stock market.

Kevin Hamilton

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HONG KONG 6

Capital markets

Floating rate issues up as CDs fall back

IT IS helpful that some competitors have shut up shop, remarks Mr Patrick Thomas, managing director of Manufacturers Hanover Asia, seeking to derive a crumb of comfort from the crisis that has struck the Hong Kong capital market.

While the equity market has boomed throughout this year, the debt market has been severely crippled by the upturn in interest rates which began in March. Rising activity in 1986 and 1987 proved to be a brittle phenomenon, based on speculative investment in paper by banks and hardly at all on take-up by genuine final investors.

The Hong Kong capital market has been largely focused on issues of certificates of deposit, which jumped in aggregate from HK\$7.2bn in 1985 to HK\$11.7bn in 1986. But in the first eight months of this year the total has reached less than HK\$3bn.

An upturn in floating rate issues, which totalled HK\$4.4bn in 1986 and have already topped HK\$4bn in 1987, cannot make up for the damage suffered in the fixed rate sector. The liquidity of the market has virtually dried up as banks have ceased to make two-way prices, a further deterrent to potential investors.

At the best of times the Hong Kong capital market is somewhat oddly structured, due to the absence of any significant market in public sector debt, and to the discrimination by the tax system against domestic bond issues. Hong Kong residents are liable to pay 17 per cent income tax on HK\$-denominated bonds but not on overseas issues. This makes local bonds unattractive compared with, say, US Treasuries, and capital market activity has centred around the banks and CDs.

During 1985 and 1986 interest rates were falling and fixed interest paper was in big demand. But something like 75 per cent of all the issues were going into the trading portfolios of banks.

As the market leader in new issues in both years, Manufacturers Hanover Asia was concerned about the lack of depth of the market. As Mr Thomas says: "If you do not have an infrastructure in place of long-term institutional or retail investors, you cannot really have a broad-based fixed interest market."

A rival banker puts it more controversially. "A lot of the leaders of the market last year didn't think too far ahead as to what would happen. The market had become issuer-driven and not investor-driven."

Most merchant bankers in Hong Kong can see little immediate prospect of any underlying recovery by the capital market

Meanwhile, over at Baring Brothers Asia, Mr Nigel Melville, the managing director, points out that "Hong Kong dentists have no interest in Hong Kong dollar bonds." He adds: "There's basically a lot of surplus capacity in the Hong Kong capital market at present."

One view is that Hong Kong has proved to be something of a lead indicator for the Eurobond market, which has also fallen on hard times as interest rates have risen this year. But Hong Kong banks have the added problem that it is impossible to hedge their inventories of local currency paper.

There is no Hong Kong dollar interest rate futures contract, and though hedging is possible against US dollars, there remains a currency risk despite the linking of the HK and US currencies, with only a small margin of fluctuation.

One ingenious solution has been found by Paribas (Asia), which in July mounted a placing of HK\$1.5bn in two equal tranches of so-called bull and bear bonds, which have redemption prices linked in different ways to the level of the Hang Seng Index in January 1992.

"We have tried to introduce new ideas and new concepts here," says Mr Philippe Aubert, senior executive of Paribas in Hong Kong. The linked bonds followed an innovative issue of Hong Kong Electric bonds convertible into shares of a quite different company, the airline Cathay Pacific. The bull and bear bonds ef-

fectively offer investors two different plays on the equity market, but from Paribas' point of view they will provide HK\$1.5bn of four-year funding at a fixed interest rate averaging around 7 per cent.

Competitors admire Paribas' initiative in launching the concept in Hong Kong, though some have doubts about whether all the bonds have really been placed in the firm hands of final investors.

Gimmicky securities may provide one answer, but Mr Thomas of Manufacturers Hanover would like to address the problem of lack of investment demand more directly. He points out that the Hong Kong Capital Markets Association has been discussing two key propositions with the Government.

One is that withholding tax should be reformed, and the other is that Hong Kong pension funds should be required to invest a certain proportion of their resources - perhaps 50 per cent - in HK\$-denominated assets. "The real investor market needs to be expanded," he says.

However, there appears to be a divergence of views within the Capital Markets Association, because its chairman, Mr Nicholas Whitehouse, a director of Wardley, the merchant banking offshoot of the Hongkong Bank, dismisses the idea as "pie in the sky".

"Forcing people to fund occupational schemes in a certain way goes against the grain of what Hong Kong is all about," he considers.

In fact most merchant bankers in Hong Kong can see little immediate prospect of any underlying recovery by the capital market, although September brought the first fixed rate CD issue for six months, a modest HK\$75m issue (along with a HK\$125m floating rate tranche) for Sanwa Bank.

Certainly, any plans for playing a significant part in the financing of the mainland have had to be shelved. China has turned to the London market (where it launched a \$200m floating rate note issue at the end of September) though a good deal of the funds now being raised through the equity market in Hong Kong could also be destined to finance developments across the border.

Barry Riley

Domestic bank profitability has recovered, though some problems remain

Exports help to cure the pallor

IF MR Tony Nicolle, Hong Kong's new Banking Commissioner, had any qualms about his predecessor's claim that the territory's problem banks were all on the mend, then the current export boom has laid them to rest.

Earnings from trade finance, from irreplaceable home loan demand, and other consumer lending, have soared strongly enough over the past 18 months to remove the pallor from the most fragile of banking institutions.

According to a report published a month ago by the Hongkong Bank, aggregate profits for the 35 local banks amounted to HK\$3.28bn on an unaudited basis in 1986, compared with an unprecedented aggregate loss in 1985 of HK\$772m.

The total of unprofitable banks fell from eight to six, and all but one of the territory's loss-makers managed to trim their losses over the year. Only Hong Nin - now called First Pacific Bank since its rescue in January - saw a deterioration last year.

No figures are yet available for 1987, but as the economic boom continued unchecked until the end of August, further improvement is certain this year.

Underlying this recovery in bank profitability, problems and weaknesses remain, but it may take another collapse like the one that shook the foundations of the economy in 1983 to make them apparent, or to put to the test the new banking regulations that are intended to provide advanced warning of a bank getting into difficulties.

For Mr Robert Fell, who retired as banking commissioner just two months ago, the past two and a half years had been devoted to crisis management and a constant struggle to maintain international confidence in a battle-scarred industry.

Over the period, seven banks collapsed and had to be rescued either by the Government itself or by "big brother" banks. Collapses had resulted from fraud (as in the case of the Overseas Trust Bank), from uncertain management (as in the case of the Union Bank, controlled until June last year by the Oen family) or over-heavy lending to individual clients (as with the Hong Nin Bank, which foundered when the scale of its lending to the troubled Fung family was unearthed).

Hong Kong's laissez-faire government was in a state of undi-

guised embarrassment over the fact that these collapses had left it running three banks. One of them has recently been sold back into the private sector (Hongkong Industrial and Commercial Bank, bought by the tiny Dah Sing Bank), and there is occasional talk of the Hang Lung Bank being close to disposal, but officials say it will be years rather than months before the Overseas Trust Bank is returned to private sector hands.

The banking sector crisis prompted the most thorough reform of banking supervision the territory has yet seen. Only this month, the Banking Commission has contacted all banks and deposit taking companies to warn them that preparations are now being made for the last of the reforms to be enforced - imposing internationally acceptable capital adequacy ratios.

Banks were given two years from last September to increase their capital bases to meet the new requirements, but since each will have to meet unique requirements, depending on the type and size of its loan portfolio, the Banking Commission is starting now to negotiate appropriate ratios with individual banks. The task is expected to be complete by September next year, and any bank then failing to meet agreed requirements is expected to have its licence removed.

Apart from negotiating and enforcing these ratios, Mr Nicolle's initial task will be to develop debate on the abolition of Hong Kong's idiosyncratic three-tier banking system, in which licensed and registered deposit taking companies sit alongside fully-fledged banks, each group working within different sets of rules.

Since 1981, licensed deposit takers have existed as "graduates" from the wider body of 248 registered deposit takers. Of the 35 now in operation, 33 are owned by banks, and 31 are incorporated in Hong Kong. They can only take deposits of more than HK\$500,000.

After a summer-long debate on a government consultative document, the idea inspiring the creation of licensed deposit takers - that they would eventually graduate to become full banks - has been jettisoned.

Instead, officials are considering demands for deposit takers to be differentiated according to their function - whether they are merchant banks, for example, or securities dealers.



Mr Tony Nicolle: three-tier system under scrutiny

Mr Nicolle also says the Government is committed to relaxing its previously rigid adherence to the rule that a deposit taker must have assets of at least HK\$14bn before it can qualify for registration as a full bank. The recent granting of a licence to the Bank of New Zealand was the first example of this new flexibility.

At a regulatory level, the Government may be committed to granting licences to smaller foreign banks, but among the local banks, it is the smaller family ones that are facing increasing competitive difficulties, often seeking refuge from a "big brother" bank.

"For many people, the flight to quality has been taken to mean a flight to size," commented Mr Nicolle, looking back over the crisis years following 1984.

As a result, only six local banks are licensed, growth was also striking. Loans grew by an average of 65 per cent, according to recently released government statistics, while deposits rose by 36.6 per cent, and profits by 30 per cent.

By comparison, the Hongkong and Shanghai Bank, and its subsidiary the Hang Seng Bank, which account for 85 per cent of all loans from local banks, managed a modest 26 per cent, with deposits up by 30 per cent, and profits up by 13.4 per cent.

Mr Tim O'Brien, the Hongkong Bank's assistant general manager responsible for retail banking, was well aware of the aggressive expansion of the Bank of China Group, and the fact that the Hongkong Bank Group was the inevitable target for such expansion.

ing "niche" markets or a loyal community of clients.

Despite the conventional wisdom that the small banks have been hit hardest by tightening competition in recent years, it is surprisingly some of the smallest banks that have recorded the best recent performances.

Tai Yan Bank, which is controlled by the Ko family, has only its headquarters building, and has assets of just HK\$45m, was ranked as Hong Kong's best performing local bank in a recent rating survey produced by Capital Information Services (CIS), an independent banking industry research company. Its deposits rose by almost 46 per cent, and assets by 29 per cent, while return on equity amounted to 7.25 per cent.

CIS talks of Tai Yan as an "odyssey with its own niche market" - a deposit cash management institution repelling customers' deposits mainly in the interbank market. Profits are enhanced by having no branch network, and its reputation for being an oddity is enhanced by the practice of not paying dividends.

As small banks have clung to niches for survival, the Peking-controlled Bank of China Group, which consists of 13 banks, have decided to attack the main retail market based on an all-out bid for improved market share has led to some astonishing growth performances over the recent past.

The Po-Sang Bank, for example, trebled its loan portfolio between 1985 and 1986, and recorded profits growth of 61 per cent. For the four banks in the Bank of China Group that are locally incorporated, growth was also striking. Loans grew by an average of 65 per cent, according to recently released government statistics, while deposits rose by 36.6 per cent, and profits by 30 per cent.

By comparison, the Hongkong and Shanghai Bank, and its subsidiary the Hang Seng Bank, which account for 85 per cent of all loans from local banks, managed a modest 26 per cent, with deposits up by 30 per cent, and profits up by 13.4 per cent.

Mr Tim O'Brien, the Hongkong Bank's assistant general manager responsible for retail banking, was well aware of the aggressive expansion of the Bank of China Group, and the fact that the Hongkong Bank Group was the inevitable target for such expansion.

"We have been an oligarchy for some time," said Mr O'Brien. "The banking crisis reinforced this position but we are certainly not the slightest bit complacent about our position in the market."

He insisted that growth per se was not a measure of profitability. "The sister banks are not quite as keen as they once seemed to be," he commented. "At one stage they appeared to be interested only in market share, whatever the cost."

Other bankers reported mortgage loans being offered earlier this year by members of the Bank of China Group at fixed rate terms, 1.5 per cent below the local prime lending rate, as these banks tried to capture a larger share of the home loan business. They have also been lending to manufacturers on terms that other local banks have found unacceptable.

This fierce competition has made it unrealistic for foreign banks to harbour hopes of entering the local retail banking market, and as a result, they have captured their own niches. As a result, while they account for 119 of the 154 licensed banks in the territory, just 15 per cent of their assets were in the form of the loans and advances made in 1986, according to a recent CIS report. Securities accounted for 8 per cent of their assets, while interbank loans accounted for almost 79 per cent.

By contrast, local banks excluding the Hongkong Bank Group have almost 49 per cent of their assets in loans and advances, with about 50 per cent in the interbank market.

As competition continues to squeeze profit margins, so fee income and earnings from interbank lending continue to become an increasingly important ingredient in bank profitability in the territory. This may in part explain the eagerness of some banks to enter the local securities industry.

Mr Nicolle, aware of the debate in London and the US over where liquidity could be drawn between banking and securities operations, is not keen to force an early ruling in Hong Kong.

"I would like to take my time on that one, and see what happens in London is particular," he said. "With the local economy bubbling so hard, there will probably be few bankers with time to disagree."

David Dodwell

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HONG KONG 7

Bank lending to industry is under scrutiny

Fears grow over inadequate investment for R & D

AT A time when Hong Kong industrialists are working at full stretch to meet the demands of the strongest export boom the territory has seen in a decade, worries about inadequate bank lending to industry may seem far-fetched.

Concern there is, nevertheless, as manufacturers face the prospect of heavy investment in new labour-saving machinery, and in research and development aimed at keeping technologically abreast of competitors in Korea, Taiwan, and South-east Asia.

Public debate began just over a year ago, after publication of an Industry Department report on Hong Kong's plastics industry. It identified a wide range of problems, but said these were exaggerated by officials who complained that banks were more relaxed about lending for property purchases - where the property could be valued easily, and could be used as collateral against the loan.

This complaint is reflected in territory-wide bank lending figures, which show that, in 1986, loans to the manufacturing sector amounted to about HK\$22.5bn - 10.3 per cent of all loans and advances - while mortgage lending accounted for 14.2 per cent, the wholesale and retail trades 14.3 per cent, and construction and property development a further 13.7 per cent.

"Local banks' portfolios - apart from the Hongkong Bank - tend to be concentrated in two areas - trade and property," says Mr Lionel Degardius, who heads Capital Information Services, a recently-established banking research company in Hong Kong. "These account in most cases for more than 50 per cent of their loan portfolios."

Bank executives in Hong Kong accept the complaint in part. "When you make a loan to a manufacturer who wants to expand, it's often much tougher to evaluate his plans and to set meaningful collateral against the loan, than it is with property lending," commented one banker.

Mr Peter Wingham, until recently chairman of the Hong Kong Association of Banks, and a senior executive of the Hongkong Bank, felt the complaint was particularly appropriate when it involved proposals for spending on research and development. "Banks are hesitant about R and D-type investment," he said. "You have to ask yourself if the borrower has the ability to make or to market the product, and answers to this sort of question are so uncertain."

"You have to have fairly sophisticated banking staff, who know the industrial markets and what is going on in them. That adds to the cost of assessing loans."

He nevertheless points to the Hongkong Bank's own scheme, offering HK\$200,000 unsecured to small manufacturers who are looking for expansion, as an example of how banks can be flexible in industrial lending.

Bankers also point to the Bank of China group's efforts to increase lending to manufacturing industry as part of a long term strategy both to increase market share in Hong Kong, and to bolster economic confidence in the territory as 1987 approaches.

The four mainland Chinese banks that are incorporated in Hong Kong - the Nanyang Commercial, Po Sang, Chiya and Hui Chiao Commercial - last year boosted their loan portfolio by 65 per cent, according to a report published six weeks ago by the Hongkong Bank. The Po Sang Bank tripled the size of its loan book. Much of this increase was in the form of mortgage financing, but much has also been directed at industry.

A three-pronged approach to solving industry's funding prob-

lems seems to be emerging as Hong Kong Government officials consult bankers and manufacturers.

First, the Government is putting more weight behind the Industry Development Board, which now meets monthly, and aims to identify areas in which the administration can best help manufacturers to upgrade technologically. This involves

Bankers see the Bank of China's increased lending as part of a long term strategy

directing more resources into the Productivity Council, which has this year received an extra HK\$72m to encourage productivity and quality improvements across industry.

Second, a working party on venture capital financing was set up by the Hong Kong Association of Banks, and produced a preliminary report in June. This body began by examining the calls for an industrial bank, but rejected the proposal; first, because it felt that manufacturers needing money for new equipment, or for general expansion, faced no shortage of funding sources; and second, because "such an entity would be inconsistent with the territory's free market tenets."

Whether this second assertion is accurate is open to question, but industrialists appear to accept that the first claim is fair. The working party concluded that the companies with the main problems were small to medium sized manufacturers that did not have the assets or track record to qualify for a stock market flotation, and manufacturers needing to boost research and development spending.

Pointing to the 15 venture capital companies already operating in Hong Kong, which together have HK\$25m invested in projects in the territory, the working party said there was more a problem of manufacturers being ignorant of what kind of project was suitable for venture capital finance than there was of insufficient sources of funding.

The working party noted that the venture capital companies - like Technoventures, Arris and Partners, and Asian Oceanic - had found limited opportunities to fund start-up ventures, with heavy initial costs and low early levels of return.

Instead, they were putting much of their cash into "mezzanine finance", often for product development or factory expansion that stretched any conventional definition of "venture capital financing".

"Many Hong Kong manufacturers still prefer minimal initial investment, low research and development spending, a quick return on investment and they are reluctant to share that profit with outsiders like a venture capital company that would prefer to have an equity stake," said an executive in one of Hong Kong's smaller venture capital companies.

The third prong of the Hong Kong Government's approach is to consider a second-tier stock market that would enable smaller companies to get funding by means of a public flotation. At present, a company must have capital of HK\$20m.

This proposal has caused alarm in some quarters, since many in Hong Kong feel the local stock exchange is already a "second-tier" market by international standards - with many companies offering only 25 per cent of their equity to the public, and with reporting and disclosure requirements still inadequate.

The working party on venture capital, aware of these con-

cerns, argues nevertheless that there are many companies that could improve technologies much more quickly and effectively if the HK\$20m listing requirement were modified to allow smaller companies to come to the market.

They insist that disclosure requirements should not be diluted, but instead call for the exchange to accept shorter

trading histories for companies seeking listings on the second-tier exchange, and for lower flotation costs.

A final factor prompting the Hong Kong Government to direct fresh attention to industry's funding needs for technological upgrading is the current economic boom itself.

Soaring export demand over the past 18 months has created unique pressures in the economy, and increasingly severe supply constraints. In recent months, the severest squeeze has emerged in the labour market, where virtual full employment has made it impossible for

many manufacturers to find enough workers.

Some of these manufacturers have responded by shifting operations over Hong Kong's land border into China. But most recognise that this can only be a piecemeal response to the long-term need to invest in labour-saving, high technology equipment.

The Government has had the foresight to realise that, despite its laissez faire philosophy, these changing circumstances have forced on it a responsibility to help manufacturers to make this adjustment. Prompt action is likely on all three of the fronts outlined above.

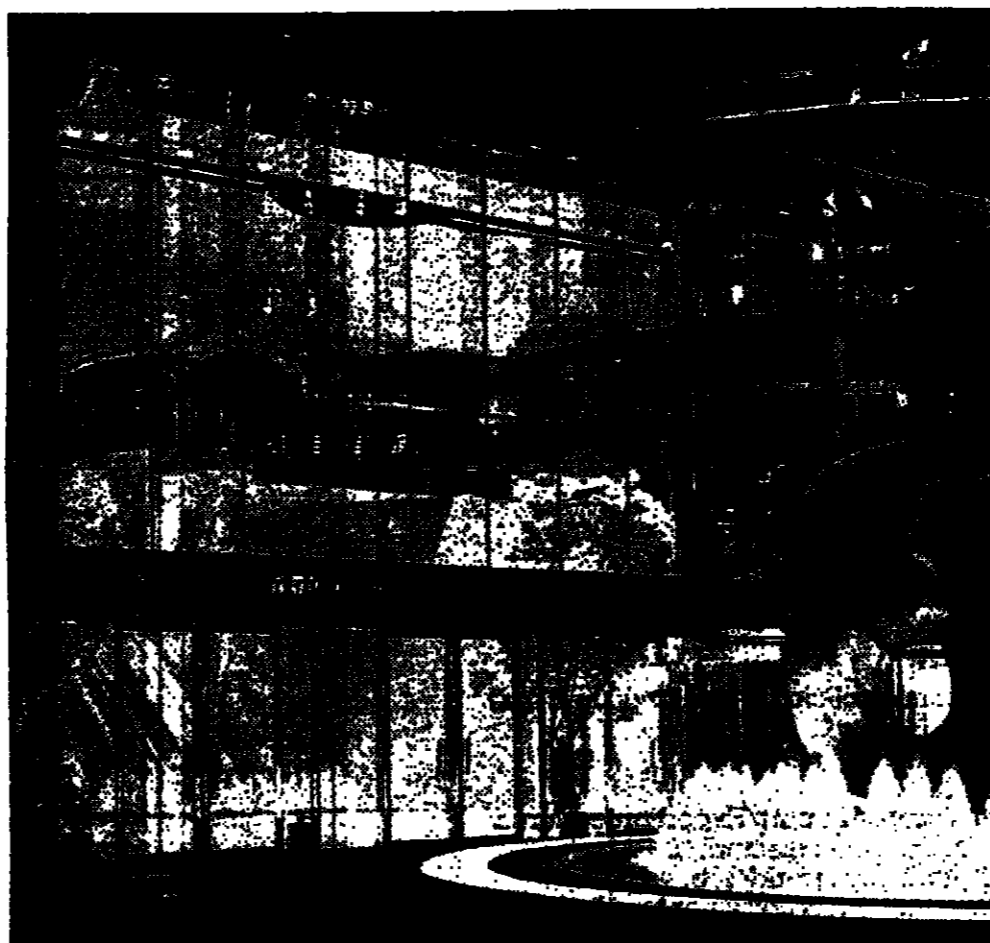
With most manufacturers reporting profits growth this year of between 50 and 100 per cent, the Government will no doubt take the view that problems over bank lending to industry have been no hindrance to growth so far.

On the contrary, some would argue that more funding would only increase the strains in an already-overheated economy. The boom conceals the need for urgent action, but the need remains, and with industry in its current hearty state, there is perhaps no better time than the present.

David Dodwell



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HONG KONG 8

As seven banks have collapsed in four years, the territory's family banks have seemed most vulnerable

New requirements induce thoughts of big brother

WHEN THE Hong Kong Government announced with considerable fanfare that it had successfully returned the convalescent Hongkong Industrial and Commercial Bank (HICB) to the private sector, reducing the total of government-controlled banks to two, there were some raised eyebrows that the purchaser was Dah Sing, one of the territory's smallest family-controlled banks.

Over the past four years, as seven Hong Kong banks have collapsed, it has been Hong Kong's increasingly idiosyncratic family banks that have appeared most fatally vulnerable. It has become conventional wisdom that they had little part to play in Hong Kong's increasingly competitive retail banking sector, and that they could only survive by seeking shelter from a big brother bank.

Today, the Far East Bank once controlled by the Chiu family has found shelter with a Sino-US banking partnership, while Ka Wah, once controlled by the Lows, is owned by Peking's China International Trust and Investment Corporation (Citic). Kwong On, once owned

by the Leungs, is controlled by Fuji Bank, while Mitsubishi Bank has taken control of the Liu Chong Hing.

Wing Hang, Wing Lung, Wing On, Hong Nin, and the Union Bank have all followed similar routes, with big brothers ranging from Irving Trust and Standard Chartered Bank, to the Peking-backed China Steam Navigation, and First Pacific.

If competition has not forced

the family of Mr David Wong, appears to be trying to follow a different route - by growing itself to a size where it can compete in the market without a big brother. To its own 14 branches will be added HICB's 23 branches.

Exact plans for growth are at present shrouded in secrecy as the family prepares a prospectus for the HICB takeover, but there will be considerable in-

organisation in Hong Kong, Tai Yau's idiosyncracies have enabled it to rank top among the territory's 35 locally-incorporated banks on its 1985 performance.

"Tai Yau is an oddity," says Mr Lionel Desjardins, who heads CIS. "It has a very limited niche of its own, mainly active in trade and mortgage finance, and has almost become a deposit cash management institution recycling customers' deposits mainly on the interbank market."

He says that with no branch network to support, the bank is able to make handsome profits. It has also insulated itself by progressively cutting back its loan portfolio since 1981 to a point where today 82 per cent of its US\$40m of assets are liquid.

Only three other family-controlled banks remain unprotected. First, the Bank of East Asia, in which the Li family has a controlling stake, ranks now among the strongest in the territory. With assets of \$2.4bn, the fourth largest branch network in Hong Kong, and strongly developed business links with mainland China, it has long since

achieved the graduation that Dah Sing is perhaps today trying to obtain.

The Tai Sang Bank, owned by the Ma family, is the smallest Hong Kong bank in terms of assets, but has five branches. Like Tai Yau, the smallness of its operation appears to offer profitability, despite narrow concentration on trade finance for a strong and loyal clientele among the Ma family's business contacts.

Low liquidity levels appear to make the bank vulnerable to any reversal in the banking sector, and limited resources make diversification difficult.

The United Chinese Bank, controlled by a former Kuomintang general, Dr S.K. Yee, is vulnerable for different reasons. While it has managed higher than average profitability among Hong Kong's banks, it is regarded as vulnerable because Dr Yee has been reluctant for political reasons to get involved with China. This has greatly

limited his client base, and his ability to capitalise on the trade boom generated by China's increasing commercial contact with the outside world. Regarded as a one man show, its days as an wholly-independent bank could be numbered.

David Dodwell

Many saw better ways of spending their money than committing it to the retail banking market

them to find big brothers, in many cases the Government's plan to introduce more stringent capital adequacy requirements by September next year has been the catalyst. Many might have been able to increase their capital base to meet new government criteria, but felt they had better ways of spending their money than committing it to Hong Kong's fiercely competitive retail banking market.

Dah Sing, still controlled by

interest in the route the family has chosen to follow.

Another family bank to have bucked the trend is the tiny Tai Yau Bank, which is controlled by the family of Mr Ko Fook-chuen, and operates without any branch network from its headquarters office in the heart of Hong Kong's central financial district.

According to Capital Information Services (CIS), a recently established banking research

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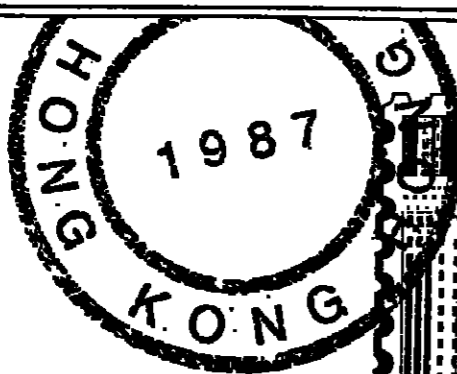
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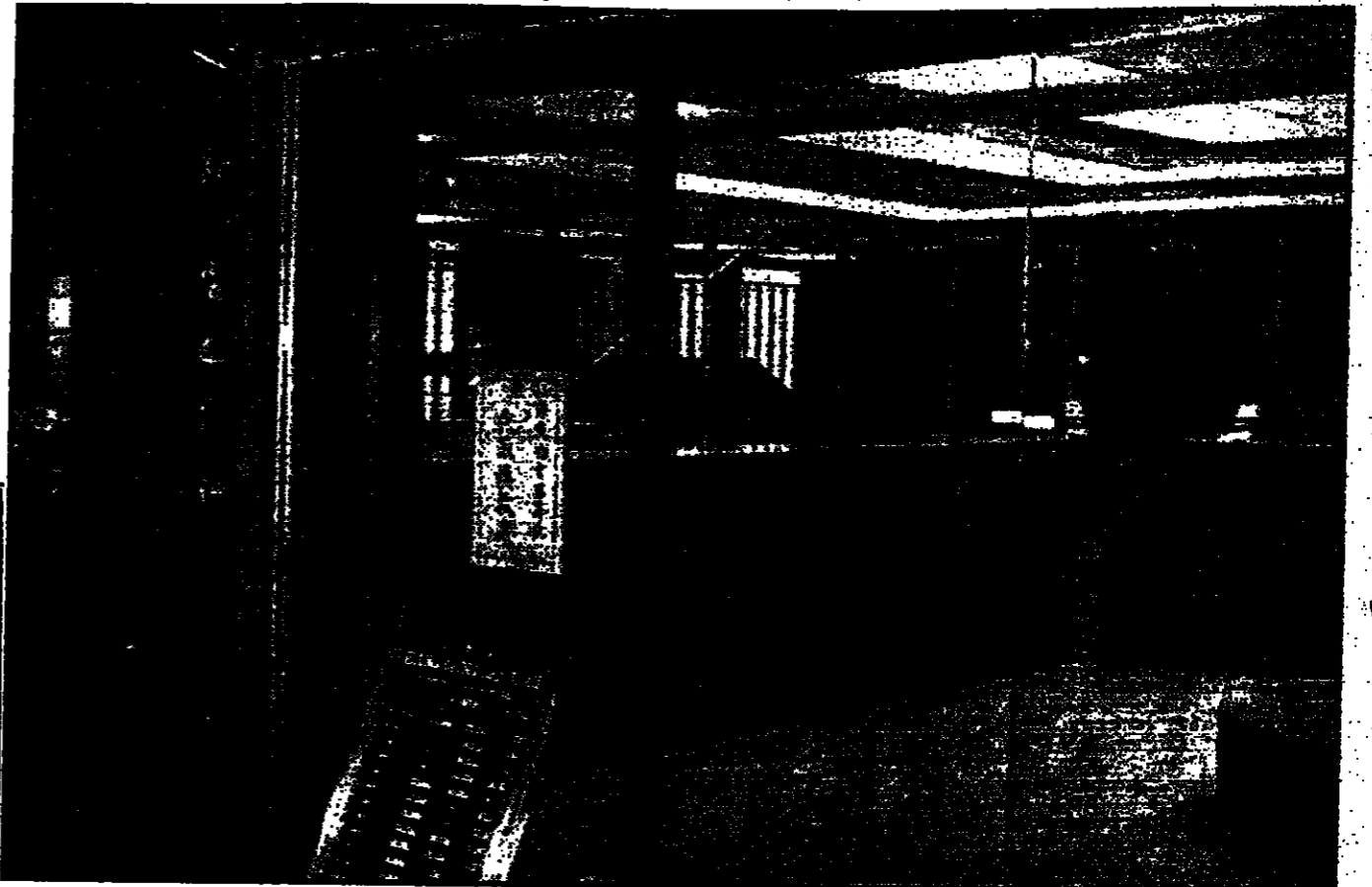


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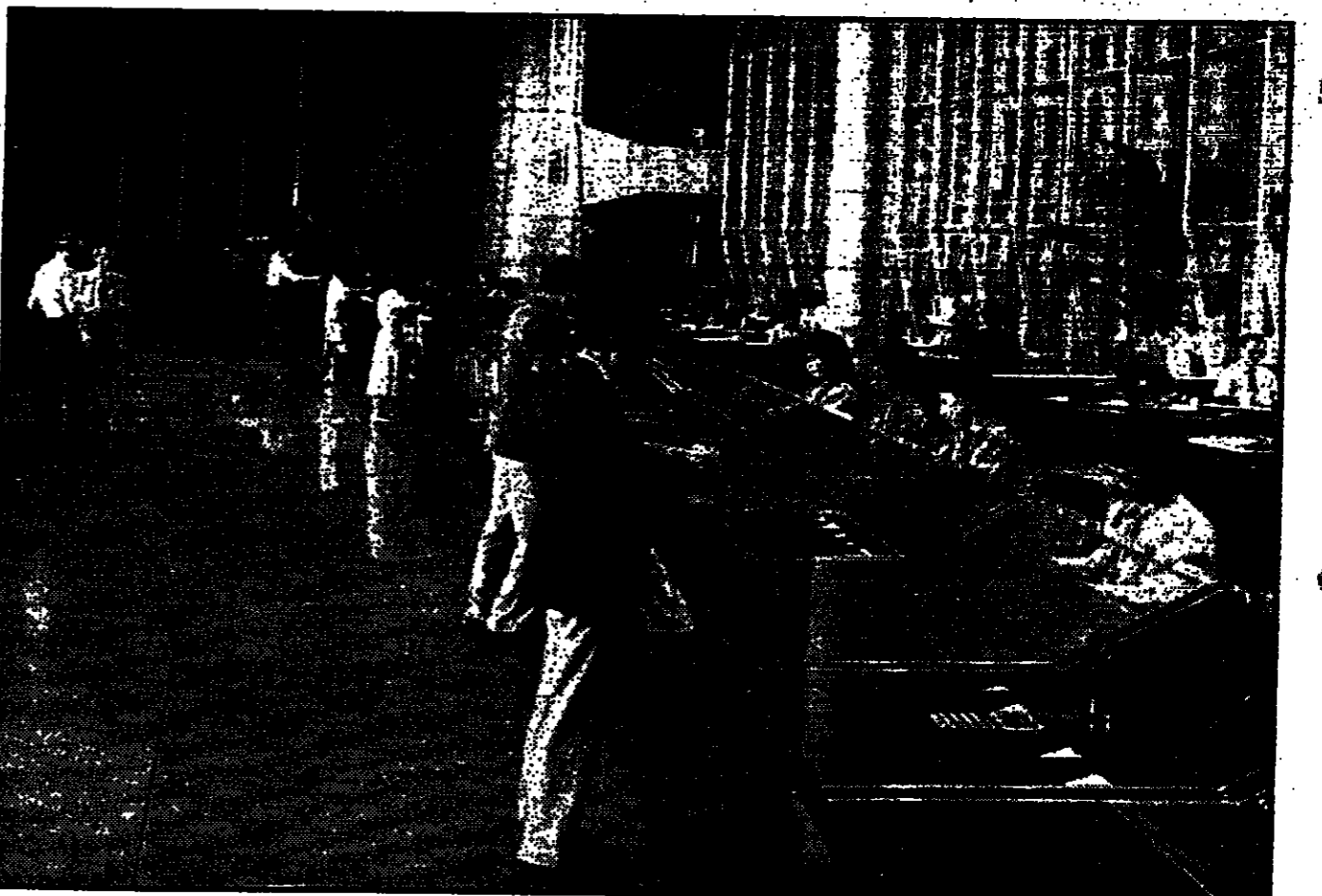


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They'll want good retirement benefits as well as salaries

A central provident fund may not be the solution to an ageing population and negligible social security benefits

New funds hold the pensions key

UNIONS AND other concerned people see all these problems, which I agree are problems, and they immediately say the magic solution is a central provident fund. But, of course, that's nonsense. It's certainly not the best solution, and it's not the right thing for Hong Kong.

Mr Stuart Leckie, managing director of the Wyatt Company, a firm of actuaries, was speaking in the spirit of this year's heated debate on the best way to cater to the needs of the territory's elderly.

The problems, referred to by labour unions and social welfare groups, are Hong Kong's ageing population and its negligible social security benefits. Smaller family units are also changing Chinese traditions, with the result that parents can no longer be sure that their children will look after them in later years.

The territory's surging economic growth has meanwhile brought rapid progress for the pension fund management industry. Wyatt estimates that retirement assets under management are doubling every three years, and now stand at HK\$50bn. It expects

a similar growth rate in future years. There are now some 5,000 approved pension funds, which Wyatt estimates covers 20 to 25 per cent of the labour force. It guesses that another 10 to 15 per cent benefit from informal schemes.

The growth of companies in the territory's burgeoning economy is causing newly approved pension schemes to sprout at the rate of about 15 a month. Mr Leckie reasons that, if the UK, with a population 10 times the size of Hong Kong, can support 100,000 pension schemes, the territory should easily be able to expand to 10,000 schemes.

There are now some 35 fund management companies active in the pension fund market. Wardley Investment, Schroders, Asia, and Jardine Fleming are dominant forces, but Gartmore, GT Management, Baring International and N M Rothschild are among a number of other concerns which, in recent years, have had significant success in attracting pension fund assets.

Wardley, a subsidiary of Hongkong and Shanghai Bank, says pension fund business has been "the engine" of its growth in recent years. It now has some

US\$2.5bn in retirement assets under management, says Mr Nigel Tulloch, managing director. Wyatt's annual review of investment performance shows that, of the 139 pension funds surveyed last year, 95 per cent achieved a return of at least 28 per cent. The highest return was 65.3 per cent, the lowest 9.3 per cent, and the median 40.9 per cent.

The central provident fund debate is a symptom of the territory's increased prosperity, of related changes in social attitudes, and generally higher expectations. "People now want good benefits as well as good salaries," says Mr Leckie.

The possibility that they will get them via a CPF is, for the foreseeable future, considered highly unlikely. The notion that laissez-faire Hong Kong should be burdened with a monster CPF remains anathema to Government and entrepreneurs alike.

There is also concern that a CPF would bring a plethora of sensitive political problems. How would China, for example, react to a large portion of the money being invested overseas? And Wardley's Mr Tulloch doubts whether a CPF is wanted

by the general public in any case. "The concept of a contributory scheme is not very popular with blue collar workers," he says, because their disposable income is already low.

Pressure from various pro-CPF lobbies has, however, prompted the Government to form a working party to look at ways of improving supervision of unapproved pension fund schemes. It is this month expected to recommend legislation to ensure that approved schemes have a committee that includes some members of the scheme, rather than just management staff.

Government will thus sidestep having to undertake a supervisory role itself, and at the same time will save the taxpayer from having to fund this activity.

The Government is also aware that pressure for improved general retirement benefits is unlikely to abate unless it is able to point to a substantial growth in private schemes. It hopes that legislation on long service payments, introduced this year, will assist this goal.

This legislation means employers already have to pay benefits to long-serving employ-

ees. The Hongkong Society of Accountants will probably be asked to encourage its members to make companies aware of this liability, and to reserve for it in their accounts.

If companies start providing for these liabilities, the reasoning goes, they should do it in a tax efficient way, through setting up approved schemes. The Inland Revenue Department has already made it more difficult for companies to obtain tax relief on provisions for liabilities that are not separated from general accounts.

As Mr Leckie said last year: "Employers who have not already done so will be drawn into the spider's web to establish their own retirement schemes, either to provide the mandatory benefits or something more generous."

When a substantial number of companies had fallen into this trap, he added, the Government will be able to put its hands on its collective heart and say: "There is now no need whatsoever for a central provident fund in Hong Kong."

Kevin Hamilton

Gold

Speculators offset renewed interest

HONG KONG'S gold traders have had a fairly dismal couple of years since the heady days of 1984, when political uncertainty over the territory's future caused locals to go on a buying spree, in spite of the precious metal's steadily falling price.

While former gold prices have helped to bring buyers back into the market this year, the renewed interest has been largely offset by speculators' preference for the high-flying local stock market.

The territory ranks with the major international gold-trading centres, and its two markets remain among the busiest in the world. The Chinese Gold and Silver Exchange Society trades bullion measured in tael (equivalent to approximately 1.2 troy ounces), and has only local members. Traders say the Loco-London market, whose members are mostly international dealers, has become the more active market in recent years.

Gold imports into Hong Kong were valued at HK\$4.99bn last year, just over a third of the HK\$13.44bn worth in 1985. While gold traders say local demand has been mostly flat this year, imports into the territory have surged. Official figures show gold of a total value of HK\$7.64bn was imported in the six months to June, more than double the HK\$3.2bn in the first half of 1985.

While the increase is due partly to the metal's increased value, Hong Kong also acts as a depot for South-east Asian gold trade, and re-exports increased by about 30 per cent during the same period.

A number of gold traders estimate that Po Sang Bank, part of the Bank of China group, is responsible for an astonishing 60 per cent of gold imported into Hong Kong. Po Sang specialises in gold trading, and its headquarters is the local point for trading by Hong Kong's general public.

Gold prices there are displayed on closed-circuit television monitors, and literally hundreds of local Chinese, many of them housewives, converge on the bank daily to take a punt on gold prices.

In addition to depressed demand, traders of gold coins are facing new competition. The American eagle gold coin was introduced in October last year;



The Australian gold nugget has been distributed since April

the Australian nugget gold coin has been distributed since April, and from next month the Hang Seng Bank will begin distributing Britain's Britannia coin.

Despite this, Mr Albert Chen, who is responsible for marketing Canada's gold maple leaf coin in South-east Asia, says sales have been strong so far this year. He says 120,000 ounces were sold in Hong Kong during the first nine months, compared with 100,000 ounces in the whole of 1986, which was down from 166,000 ounces in 1985.

He estimates that the maple leaf will corner a 60 per cent share of the local coin market this year (this equivalent of 150,000 ounces), down from 75 per cent in 1986, due mainly to market erosion by the Australian nugget. Hong Kong, Taiwan and Singapore account for 10 to 15 per cent of maple leaf sales worldwide, says Mr Chen.

Mr Joseph Lo, who markets the Australian nugget through Goldcorp Australia's local office, says he expects to sell 100,000 ounces in the first year of distribution. Sales in Hong Kong accounted for more than 13 per cent of the nugget's world-wide total during the period from April to June.

Another coin available in Hong Kong is China's panda. While traders say local demand is non-existent, because of its hefty price premium compared with other coins, Japanese and US dealers are said to be "crazy about it".

Hong Kong is a high volume, low margin trading centre, with a large proportion of local in-

vestors speculating on short-term price movements. Margins of HK\$8 on tael bars and HK\$10 on one-ounce coins are the lowest in the world. With such slim margins, punters "can buy in the morning and sell in the afternoon," says Mr Lo.

While local Chinese have long been recognised as notorious hoarders of gold, referred to as the "squirrel mentality" by Mr Lo, traders say this pattern is changing as 1987, and Hong Kong's future as a part of China, looms. "There are more profit-takers now; they want to make quick money," says Mr Lo.

In recent years, gold traders have also had to contend with the increasing popularity of some high-interest foreign currency deposits. The competitive banking environment has brought lower minimum deposits for foreign currency accounts, and slim buy/sell spreads. With gold prices fairly static, many investors have preferred to punt on currency appreciation.

Traders' future hopes for improved gold sales are largely based on the territory's growing inflation rate. Government now estimates that inflation will reach 6 per cent this year, and some economists say it could be 8 per cent.

If that, or a good healthy bout of political jitters, doesn't work, traders will probably be reasonably content if investors decide to divert a portion of their stock market winnings into physical assets.

Kevin Hamilton

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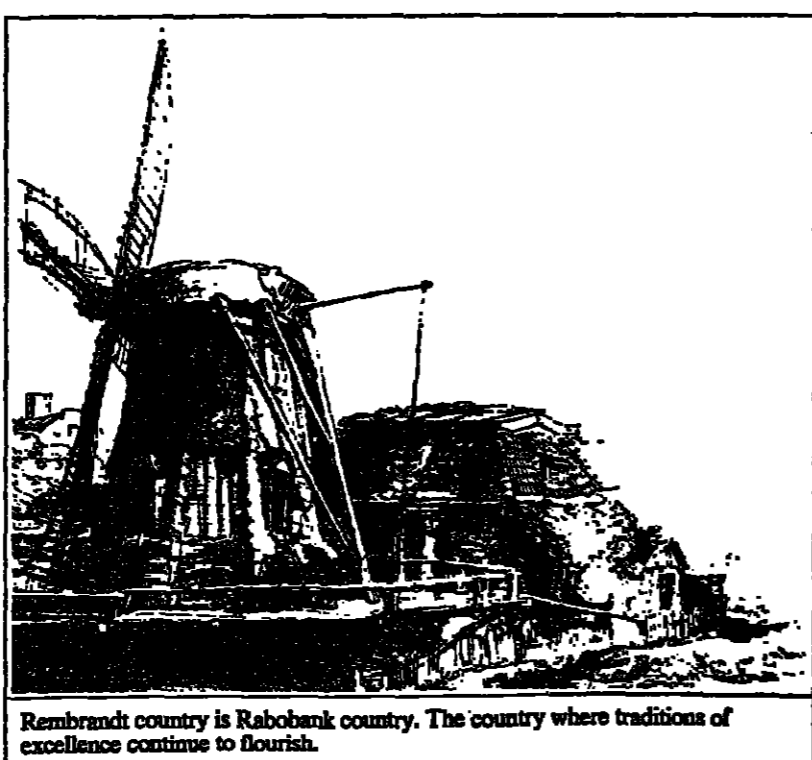
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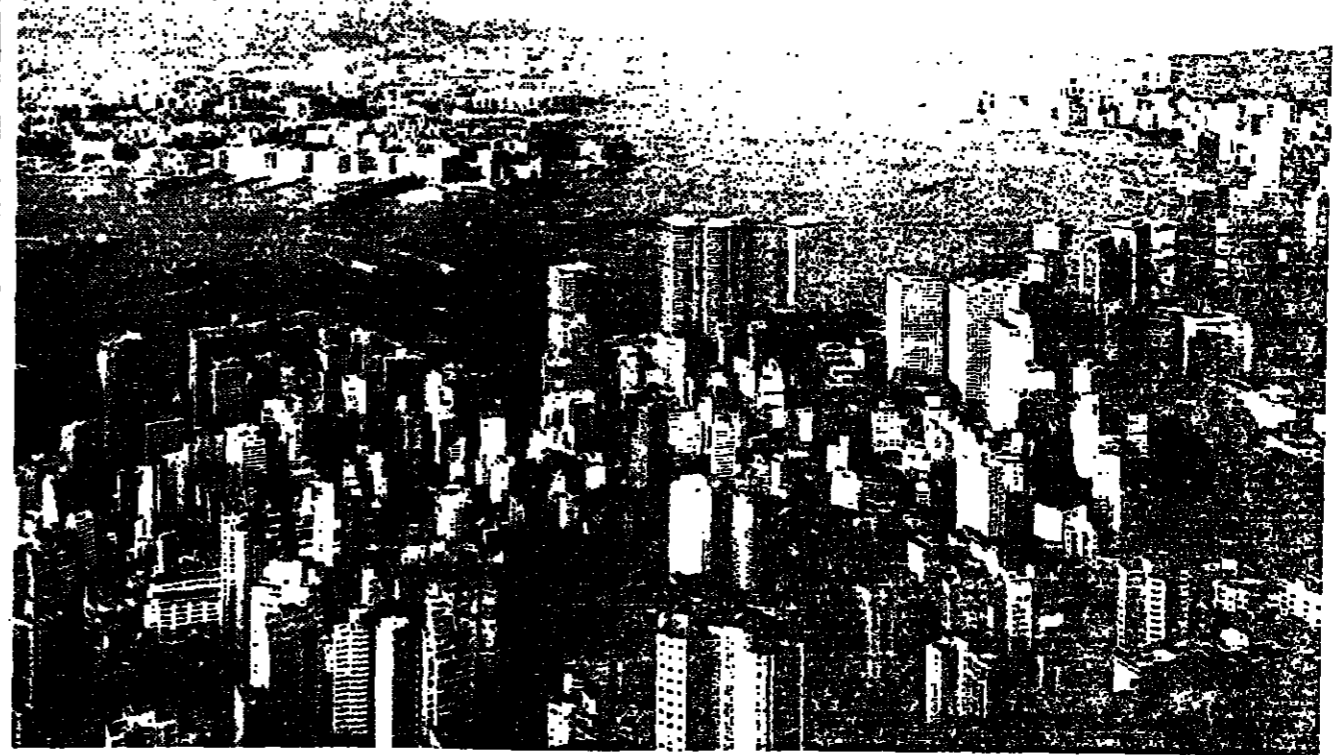
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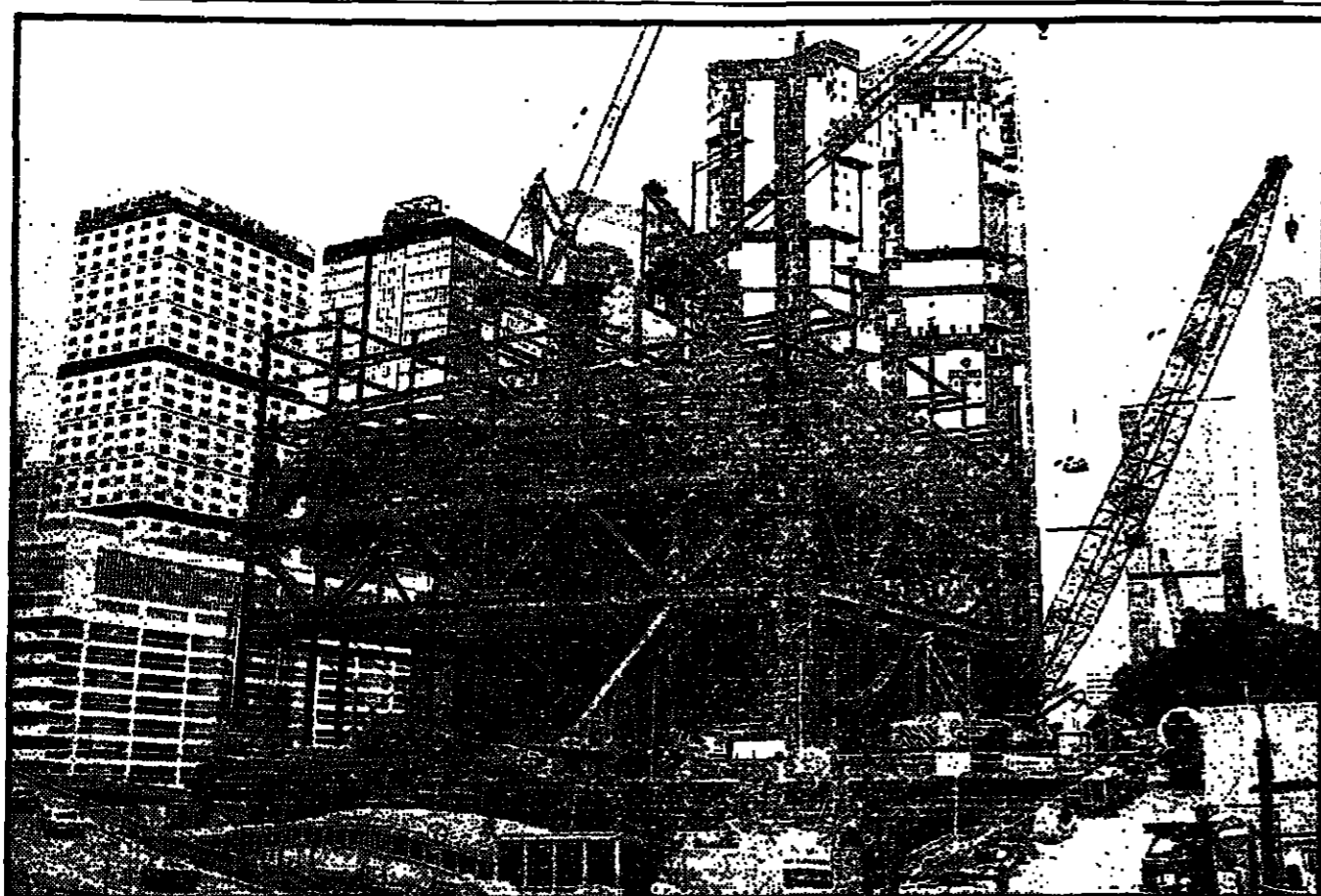
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HONG KONG 10



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Bank of China's new building has awakened superstitions

Watch the wind and water

SLOWLY EMERGING as an integral part of Hong Kong's skyline, the Bank of China's (BOC) new headquarters building will by the end of next year become a striking symbol of China's re-emergence into the world economy.

An angular 70 storeys high, and costing HK\$1bn, it might also serve as a stark daily reminder that sovereignty over Hong Kong is to revert to China in less than 10 years.

For the time being, however, superstitious Hong Kong people are more concerned about the building's dubious "Feng Shui" (which means, literally, "wind and water").

Revered by locals, Feng Shui masters are believed to be able to determine whether a building will attract prosperity and good fortune.

They do this by analysing a building's location, shape and direction, and by relating such factors to the presence of various spiritual forces. The proximity of benevolent dragons is thus considered equally important.

BOC's main problem is that its new building has an angular shape, which Feng Shui experts

believe could disrupt and anger vital spiritual forces.

Many superstitious local Chinese wouldn't even consider building without consulting a Feng Shui master, a factor BOC appears to have overlooked.

By a few small adjustments to the best architectural plans, local Chinese believe the Feng Shui master can ensure that a building, and its owners, have good fortune and prosperity.

The only alternative is bad Feng Shui, which means, effectively, certain hard times.

On the upside, the new BOC headquarters is situated on the path of the territory's most auspicious dragon vein. Other buildings located on this, such as Government House and the Supreme Court, have been preserved even in times of adversity, point out Feng Shui experts.

While mainland China has scorned the art of Feng Shui as a "superstition", celebrated American-Chinese architect Mr I M Pei, who designed the new headquarters and was born in Canton, should perhaps have known better.

Despite the building's potentially modern appearance, I M Pei and Associates insist its design

is rooted in classical Chinese philosophy and iconography. They liken its structure to the trunk of a bamboo, which is "propelled ever higher by each new growth".

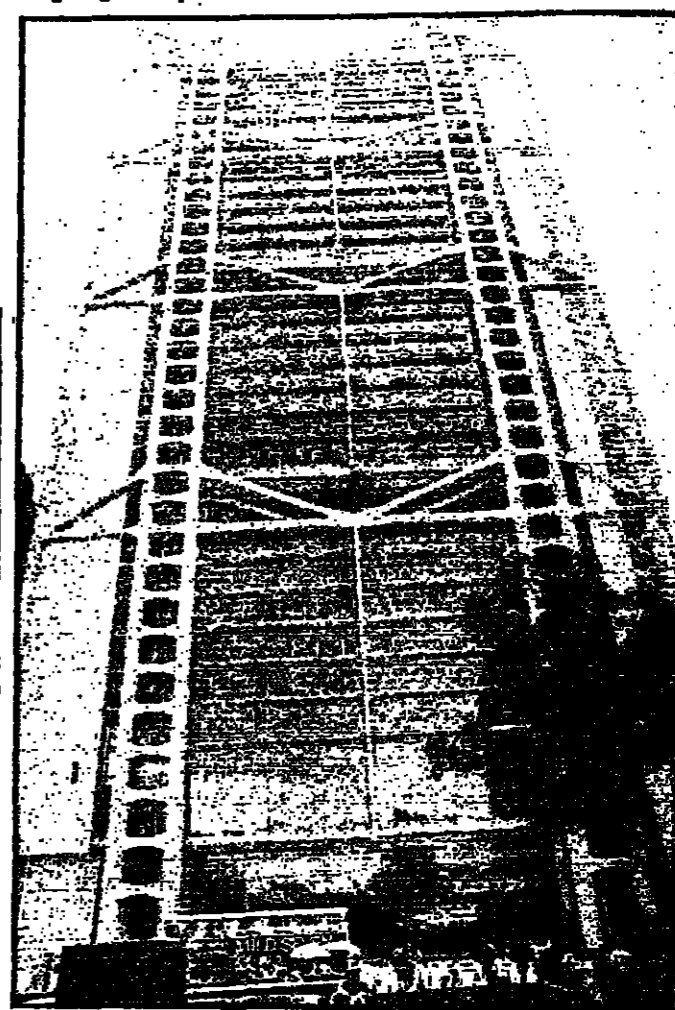
"In this sense, the architecture of the new Bank of China building is symbolic of the modernisation efforts now undertaken by China," say the architects.

The building is situated on prime land on the periphery of Hong Kong's central business district. BOC acquired the site from Government at the peak of the 1982 property boom at the "friendship price" of HK\$1bn - less than one third of what Hongkong Land paid for its Exchange Square plot at roughly the same time.

At a height of some 315 metres, it will be the tallest building outside the US, and the world's sixth highest. Construction work, carried out by Japan's Kumagai Gumi, has now reached the 19th floor. BOC will occupy the first 19 floors, and will lease the remainder to third parties.

In common with other of Mr Pei's designs, the BOC building will feature a 15-storey atrium. The banking hall will be clad in two shades of grey granite, while the tower will be sheathed in metallic aluminium and silver heat-reflective glass.

Nevin Hamlin



Another landmark Hongkong and Shanghai Bank

Decade of the dragon

Continued from page 1

rope - particularly West Germany.

Exports to Japan rose in the first half of this year by 71 per cent, to West Germany by 42 per cent, and to China by 69 per cent. As a result, the US accounted for 38 per cent of exports by value in the first half of this year, compared with 44 per cent in 1985.

A second major problem - aggravated by severe shortages of labour - is the need for local manufacturers to "graduate" from labour intensive to capital intensive, high technology industry.

Since the Hong Kong Government remains firmly committed to non-intervention, it has found itself hamstrung in providing aid to industries needing to enhance research and development capabilities. The Industrial Development Board and the Productivity Council have been strengthened, and plans for easier access to venture capital funding have been discussed.

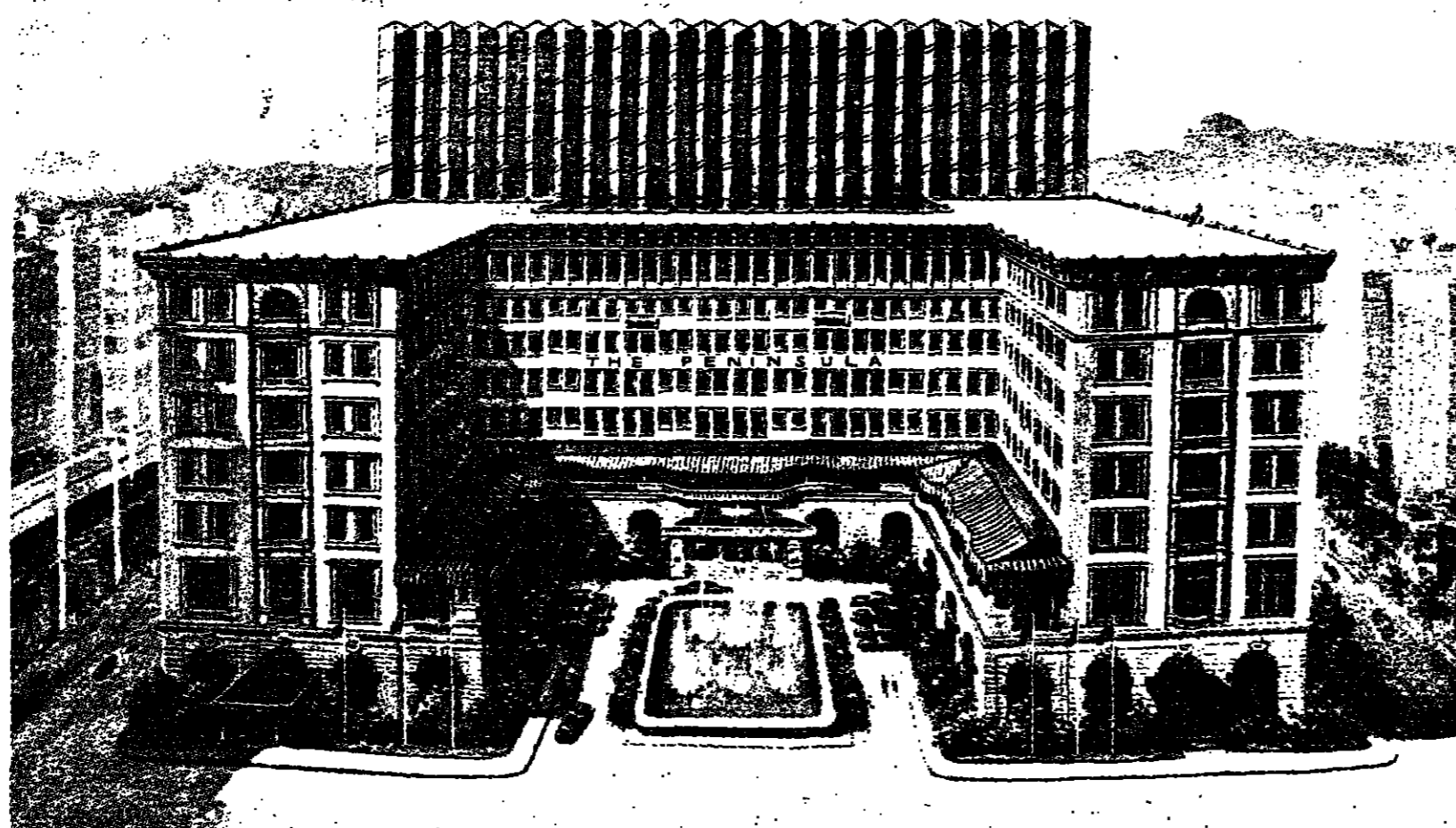
Proposals for a second tier stock market that would give younger and smaller companies access to public funding are also under consideration. But the onus remains with the manufacturers themselves, and a fund recently set up by two leading industrialists, Mr Allen Lee and Mr Stephen Cheong, may provide guidelines for future development.

While laissez-faire principals remain close to the heart of Hong Kong's top-most officials, both the imminent take-over by Peking, and the increasing need for international respectability, mean that the case for improved supervision - particularly of the banking and securities industries - remains strong.

The banking crisis triggered by the collapse in 1983 of the Hang Lung Bank acted as an early catalyst for banking reforms, and stricter supervisory powers were brought on to the statute book in September last year.

But major reforms in the securities industry are still awaited - including fuller disclosure rules, greater powers to detect insider trading, an internationally credible central clearing system, and the reform of some of the feudal practices of the recently unified stock exchange.

At present, it is difficult to discern from the exposed bowels of the Bank of China headquarters what view Peking would take of such reforms - except that they would be as keen as the existing government to improve international respectability, and would not be eager to offend local superstitions.



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SECTION II - COMPANIES AND MARKETS

FINANCIAL TIMES

Wednesday October 14 1987

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Merrill Lynch profits unchanged at operating level

BY JAMES BUCHAN IN NEW YORK

MERRILL Lynch, the big New York brokerage firm, set the stage for a weak show of third-quarter financial results from Wall Street houses with a report of flat earnings from operations in the quarter to September.

Merrill yesterday reported net income of \$195.1m or \$1.78 a share as against \$83.7m or 80 cents a share. But the latest earnings are widely flattered by a special gain of \$100.3m after tax from a property deal.

Without this gain, which Merrill booked from the sale of a right to buy half a downtown New York skyscraper, Merrill's earnings for the quarter were more or less unchanged at \$94.8m.

The flat performance, despite a 30 per cent boom in revenue to \$3.02bn, shows Wall Street's immense difficulties in controlling its costs as much as the widely-expected losses from trading fixed interest securities in the choppy markets of the third quarter. Salomon, the big securities trading house, has already said it was only marginally profitable in the September quarter.

Merrill said that its investment banking revenue was up 21 per cent in the September quarter, while revenues from asset management and insurance broke records. Revenue from own-account trading known as principal transactions was down only 1 per cent "despite the difficult fixed income trading environment."

Total expenses were up 27 per cent, with half of the increase put down to reserve strengthening in the insurance business, Merrill said.

Mr William Schreyer, chief executive, and Mr Daniel Tully, president, said: "We are continuing to make good progress in a very challenging environment."

Time lifted by buoyant magazine division

By Our New York Staff

TIME, the large US publishing and cable television group, yesterday reported a strong advance in third-quarter operating income thanks to a sharp improvement in the performance of its key magazine division.

Time, which has returned firmly to Wall Street favour in the past nine months, yesterday reported a 78 per cent increase in operating earnings to \$178m in the September quarter.

The increase, which was powered by a near tripling of profits from magazines to \$48m, far outpaced the 17.1 per cent increase in sales revenues to \$1.07bn.

Time's net income was \$74m or \$1.24 a share, compared with \$25m or \$0.38 a share in the 1986 September quarter. But these figures are distorted by a number of special gains and losses as new management under Mr Richard Munro, chief executive, has moved to shed unprofitable businesses and more fully exploit others.

Last year, Time realised a \$35m pre-tax gain from the public offering of stock in American Television & Communications, which helped draw Wall Street's attention to the value of Time's cable businesses.

This was partly offset by a \$50m charge for relocating a department. This year, Time took a gain of \$15m on the sale of its stubbornly unprofitable Discover magazine.

In the other divisions, operating profit was up 86 per cent to \$52m in book publishing because of the acquisition of Scott, Foresman, the text-book publisher. At Times' pay television networks, operating profit was up 42 per cent to \$34m, while cable television improved 43 per cent to \$34m.

Sharp rise in software revenues boosts IBM

BY RODERICK ORAM IN NEW YORK

INTERNATIONAL Business Machines, the world's largest computer maker, has reported its first year-on-year rise in profits in the past six quarters. A sharp increase in revenue from software helped offset slower growth in hardware sales.

Net income for the three months ended September rose 12 per cent to \$1.21bn, or \$2 a share, which was towards the bottom end of some analysts' forecast. Its stock slipped 5% to \$148 in early trading. A year earlier net income was \$1.08bn, or \$1.76 a share.

Revenues rose 7 per cent to \$12.73bn from \$11.91bn a year earlier, within which software sales rose 20 per cent to \$1.8bn, hardware sales rose 6 per cent to \$8.43bn and rental and other services fell 18 per cent to \$788m.

IBM did not break out sales of personal computers in the quarterly period but it said recently it was its best period ever for the products. In the first seven months of this year shipments of personal computers

jumped 40 per cent following the introduction of its second family of PCs, the Personal System/2.

IBM has high hopes for PS/2, believing the range can roll back the encroachment of clone computers. Strong shipments this year reflect, however, buoyant industry-wide demand and Wall Street believes that IBM has at best only stopped the erosion of its market share. It recently began discounting some of its new models, much earlier than usual in a product's life.

Mr John Akers, IBM's chairman, attributed the increase in third-quarter profits to "the effects of our cost and expense actions, coupled with significant resource reductions." He added that "our agenda for the future remains unchanged."

For the nine months, IBM's net income slipped 6.7 per cent to \$3.17bn, or \$5.25 a share, from \$3.4bn, or \$5.53. Revenue rose 5.5 per cent to \$36.2bn from \$34.3bn with the same trend of strong software and weak hardware sales.

BAT Industries to spend \$300m on Saks expansion

BY NICK BUNKER IN LONDON

BAT INDUSTRIES, the world's largest private sector tobacco company, announced its second big investment in US retailing in four weeks yesterday, when it said it would spend \$300m over the next five years to expand and modernise Saks Fifth Avenue, its New York-based chain of 44 high-fashion stores.

The British-based group said it planned to open five new Saks stores, in Virginia, Colorado, Minnesota, Oregon and North Palm Beach, Florida.

It also plans to modernise and renovate 27 stores, including the flagship Saks store in midtown Manhattan.

The news came less than a month after BAT announced a \$110m programme for refurbishing the Marshall Field department store, which it owns, in downtown Chicago. The Saks chain's sales exceeded \$1bn in 1986 for the first time in its 63-year history, with trading profits of more than \$100m.

Mr Melvin Jacobs, Saks Fifth Avenue's chairman and chief executive, said its strategy revolved around enhancing the chain's appeal for customers seeking high-quality fashion merchandise.

● Matel, the US toys group, has reached agreement with Walt Disney, to design, make and market Disney-branded infant and preschool toys as part of a worldwide licensing agreement.

The first products in the line will be presented to the US trade by Matel at its January Pre-Toy Fair in Scottsdale, Arizona and to the international toy trade at toy fairs around the world in early 1988. The toys are expected to be on sale in shops by mid-1988.

Disney said the new line will allow them to "compete head to head with the other important pre-school toy lines." The line will include moulded plastic toys, activity sets, skill sets and role model-type toys, aimed at the pre-school market.

Humana returns to profit in final quarter

BY OUR NEW YORK STAFF

HUMANA, the struggling US health-care and hospital group, yesterday reported a return to profit for the quarter and year to the end of August as it sorts out a disastrous foray into health insurance.

The group, the second-largest US hospital operator after Hospital Corporation of America, reported net income of \$47.5m or 48 cents a share, in its fourth quarter to August, against a loss of \$106m in the 1986 August quarter.

However, the 1986 figures included a special charge to earnings of \$130.8m, mainly to cover expected losses on Care Plus, its health-insurance business.

Humana launched Care Plus in 1984 in response to a campaign by government and business to curb medical costs by keeping patients out of hospital.

The company hoped the insurance would provide captive patients for its hospital chain, now 67 strong. But until Humana started writing tougher contracts, more than half the patients were going elsewhere.

Revenues in the fourth quarter were up 18 per cent, at \$1.05bn.

For the full year, Humana reported earnings of \$182.8m, or \$1.86 a share, against \$54.3m, or 56 cents a share, after the special charge of \$130.8m.

Air Jamaica terminates jets lease-back deal

BY CANUTE JAMES IN KINGSTON

AIR JAMAICA has terminated a lease-back arrangement with GPA Midland, a subsidiary of the GPA Group of Shannon, Ireland, repossessed the four aircraft involved and has sold them to a US company in another lease-back agreement.

The company says the four Boeing 727 aircraft have been sold to Air Gibraltar of Kansas City for \$35m. The purchase was financed by the London branch of Security Pacific Bank of Los Angeles, California.

There was no immediate indication from the state-owned airline

about the reason for the change, but it said the move had netted it \$14.5m, and that this would "see an improvement in Air Jamaica's cash flow, place the company on a better financial base... with sufficient cash to cover operation needs and also assist in future capital investment."

The lease-back agreement with Guinness Peat became effective in December 1984, when the company said it sold the four aircraft for \$25m. In terminating the agreement, Air Jamaica said it paid Guinness Peat \$18.1m, representing

the balance of principal and interest, and termination charges.

Mr Pernel Charles, Jamaica's Transport Minister, said the deal represented "good business" for the state-owned airline, while Mr Tony Hyman, Air Jamaica's president, said he was "proud and pleased" at the agreement.

The 17-year-old airline operates five other aircraft - two Airbus A-300s which it owns, a third A-300 on lease from Air France, a Boeing 727 leased from Ansett of Australia and a Boeing 747 leased from Tower Air of the US.

First Chicago shows third-quarter fall

BY OUR NEW YORK STAFF

FIRST CHICAGO, parent of the 11th-largest US bank, has reported lower net profits for the third quarter because of a charge from restructuring its bank's international network.

The \$38m, or 39 cent a share, charge was slightly larger than forecast when the reorganisation was announced in July. It cut net income to \$64.9m, or \$1.11, from \$72.3m, or \$1.24 a year earlier.

For the nine months ended September, it reported a net loss of \$300.5m, reflecting provisions for loan losses of \$855m in the second

quarter, of which \$780m was for Third World sovereign debt, and \$75m in the third.

The company is cutting its 1,550-strong overseas staff by about 20 per cent.

● First Bank System, the Minneapolis holding company of the 15th-largest US banking group, has reported third-quarter net profits of \$54.3m, or 86 cents a share, against \$51.9m, or 86 cents, after an addition to loan loss reserves of \$19.9m in the latest quarter against \$272.2m a year earlier.

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INTL. COMPANIES & FINANCE

Financial Times Wednesday October 14 1987

Chris Sherwell reports on the world's biggest diamond mine

Sparkling success for Argyle

AN UNMARKED modern building, located opposite a flourishing green park in central Perth, houses the largest diamond sorting and cutting centre outside London.

Under the unremitting gaze of high security cameras, skilled workers process masses of industrial stones and an array of brilliant white gems, highly-prized pinks and yellow-tinted champagne and cognac diamonds.

In the rugged Kimberley mountains on the other side of Western Australia - as far away from Perth as Moscow is from London - stands the source of this bounteous harvest, the world's biggest diamond mine at Argyle.

In the space of two years the A\$430m (US\$312m) open-cut mine and the Perth diamond centre have generated a new force in one of the world's most secretive and mysterious industries.

Because of Argyle, Australia is already the world's largest diamond producer by weight, and sixth largest by value. Proven reserves of diamond-bearing ore are currently put at 70m tonnes.

So voluminous is its output, the technologies developed to extract and sort its stones are reckoned to be ahead of South Africa's. The pink gems, now world-renowned, have become Argyle's trademark.

The operation is 58.8 per cent owned by CRA, the Australian mining group. Its partners are Ashton Mining (38.2 per cent) and the West Australian Diamond Trust (3 per cent).

In its first full year of production last year, the mine produced 28.2m carats of dia-

monds, well over the original estimate of 25m. This year it will be about the same, with the plant processing some 3.7m tonnes of ore, more than its design capacity.

So high-grade is the resource, it produces seven carats of diamonds per tonne of ore, five times the world average. One part of the ore body has 20 to 30 carats per tonne.

The quality, however, is relatively low. Some 5 per cent of the stones are gem quality, 35 per cent cheap gem and 60 per cent industrial.

Of last year's output, the gem-quality stones increased world supply by 8 per cent and added only 2 per cent in value terms. Industrial stones, on the other hand, increased world supply by 75 per cent, and value by 60 per cent.

Once the share due to the West Australian Diamond Trust is sorted out - the trust sells it on the market through an agent in Antwerp - the remainder is divided 75:25 between the Central Selling Organisation (CSO), part of the South African De Beers group, and Argyle Diamond Sales.

Under the five-year agreement with the CSO, all rough gems go to De Beers save for those which Argyle retains to process in Australia at the Perth sorting and cutting centre.

Argyle is shortly to decide whether to make the centre permanent and confirmation seems likely, at least to judge by the success of the pink diamonds.

Another tender - the third - is due next month in Antwerp and is expected to attract a high level of interest. A total of 50 to

60 carats will be on sale and will include some large stones. In the last sale, held last December, a London merchant purchased a 2.11 carat stone with an estimated retail value of A\$1.5m.

Perfect white

Argyle is also seeking to stimulate interest in the range of yellow to brown stones, cleverly described as champagne and cognac diamonds, which make up one third of its gem-quality output.

An exhibition of these stones worth A\$12m is being launched next month in London and then in Australia. The idea is to encourage the kind of public awareness already shown for the 'perfect white' - and, of course, to raise prices.

Argyle's gems, though a small proportion of the total output, generate 40 per cent of the group's revenues. Another 50 per cent comes from near-gem stones, and the remainder from the more humdrum industrial diamonds.

Its contribution to world supply has not hurt the market, however, because of the agreement with the CSO, the dominant market force, which exercises a critical influence on prices.

In the past two years world diamond prices have actually recovered strongly from the crash of 1981 and 1982 which followed the last boom of 1979 and 1980. Argyle is therefore looking forward to increased revenues in the current year.

One reason for the buoyancy is increased demand for stones where diamond imports are up an estimated 50 per cent

this year alone. It is the fastest growing market in the world, but at 18 per cent of the total is still well behind the US, at around 35 per cent. Nevertheless, the talk is of a structural change in the world diamond market.

A major customer for Argyle's near-gem production is India, which has had a diamond industry for centuries. Through Argyle's own efforts and CSO sales, an estimated 80 per cent of the mine's rough stones go to Indian diamond centres in and around Bombay.

"We rely on India as a customer," Argyle officials say. "They have a sophisticated distribution network for selling to the US and the Far East."

Second resource

On the production side, Argyle's next major decision concerns Ellendale, another diamond resource discovered before Argyle. Located near Derby, it has been regarded hitherto as a marginal resource, but is now being re-evaluated for development.

Exploration is meanwhile continuing in the region. Although plenty of diamond resources have been found - some 97 'pipes' altogether - none yet looks economic.

Argyle, on the other hand, is set to last 20 years. If it does not, the comfortable motel-type establishment for mineworkers, most of whom commute every two weeks by jet from Perth, could easily be turned into an unusual resort. This seems unlikely, since new reserves are constantly being proven. Diamonds, as they say, are forever.

Lau brothers buy stake in Paul Y

By David Dodwell in Hong Kong

MR JOSEPH LAU and Mr Thomas Lau, the Hong Kong-based brothers who control a fast-growing empire based on the companies Evergo, Chinese Estates and China Entertainment, yesterday revealed that they had acquired a 25 per cent stake in Paul Y, the construction, shipping and property group, for HK\$204m (US\$28.2m).

This came just three days after the purchase of a 10 per cent holding in Law Fashion Knitwear for HK\$320m. Evergo is to be used to buy the Law's stake, while China Entertainment is to acquire the holding in Paul Y.

The Laus were at the centre of controversy this summer when they failed narrowly to take control of Hongkong and Shanghai Hotels, controlled by the Kadoorie family. They earned HK\$136m when they sold their stake to a group of banks.

Paul Y is one of the three main contractors building Hong Kong's HK\$3.4bn Eastern Harbour tunnel. It has also completed a number of contracts for the territory's Mass Transit Railway Corporation. After losses of HK\$158m in the year to March 1986, Paul Y returned to profit last year with an after-tax total of HK\$11m.

Anglovaal hit by higher costs

BY JIM JONES IN JOHANNESBURG

THE DILEMMA of the South African gold mining industry was reflected yesterday in September quarter reports of the three gold mines managed by the Anglovaal group. Cost increases generally outweighed revenue increases despite greater ore processing rates and improved gold recovery grades and despite the fact that none of the group's gold mines were affected by the black miners' strike.

Lorraine was particularly badly affected by a drop in mill throughput. The mine's unit cost of mining and processing each ton of ore was 14 per cent higher in the September quarter than in the June quarter and the quarter's working profit

from gold mining alone fell to R7.4m (\$3.6m) from the June quarter's R10.5m.

Capital spending increased slightly at Lorraine but was cut sharply at the Hartbeestfontein and Eastern Transvaal Consolidated (ETC) mines.

	ANGLOVAAL GOLD QUARTERLIES				Earnings per share (cents)	
	Gold produced (kg)	After-tax profit (Rm)	After-tax profit (\$m)	Sept 67 Jun 87	Sept 67 Jun 87	Sept 67 Jun 87
E. Tvl Cons	887	950	11.02	16.68	75.5	39.1
Hartbeest	7,946	7,680	50.82	80.29	39.5	21.3
Lorraine	1,983	2,064	10.71	12.52	18.7	31.1

Earnings are calculated after capital expenditure and loan repayments

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Manufacturers Hanover Limited
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14th October 1987

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Interest Amount per U.S. \$10,000 Note due 14th April 1988	U.S. \$463.85

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Interest Period	14th October 1987 14th April 1988
Interest Amount per U.S. \$5,000 Note due 14th April 1988	U.S. \$230.34

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U.S. \$100,000,000

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Subordinated Notes Due 1999

Interest Rate	9 1/8% per annum
Interest Period	14th October 1987 14th April 1988
Interest Amount per U.S. \$5,000 Note due 14th April 1988	U.S. \$230.34

Credit Suisse First Boston Limited
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UK COMPANY NEWS

Lisa Wood looks at Midsummer Leisure's possible takeover of Boddington

Celebrations that may yet go flat

NEXT TUESDAY Boddington, the Manchester-based brewer, plans to celebrate its 100th anniversary of being a public company in a major celebration at which most of the British brewing establishment will be present.

The event could yet turn into a wake. Boddington, one of the oldest brewers in Britain has until 6pm this Thursday to respond to a takeover approach by Midsummer Leisure, the youthful and fast growing operator of discotheques, public houses and snooker clubs.

Midsummer, with a market capitalisation of just under £100m has suggested it would offer seven of its shares for every 15 of Boddington, valuing Boddington at around £270m. No cash alternative has been offered.

Boddington has described the bid proposal, which is not yet a formal offer, as "most unusual" and was yesterday meeting with its financial adviser, Kleinwort Benson. What is not yet clear from Midsummer, which holds a 2.1 per cent stake in Boddington, is whether it would proceed with a hostile bid should its overture be rejected.

The takeover, if successful, would be part of an emerging trend of acquisitions of regional brewers by non-brewers. A new breed of entrepreneurs, alive to the retailing potential of strong brands and public houses and critical of their present managements, have in the last few years started to pick off sleepy regional brewers. These include Inn Leisure's acquisition of Devonish, the Cornish brewer, and Brodian's takeover of Buckley's Brewery in South Wales.

It is a development which could accelerate at a time when

many of the brewers are wary of trying to acquire other brewers because of the current investigation by the Monopolies and Mergers Commission into the tied house system through which most established brewers sell the majority of their beers.

Midsummer's approach to Boddington is not the first one to be received by the brewer of a cult real ale and which owns some 560 public houses. In 1970 Boddington fought off a bid from Allied Breweries, the major brewer.

In its successful defence Boddington was assisted by the Whitbread Investment Trust (WIT), an authorised investment trust in which Whitbread, the major brewer, has a 49.8 per cent stake. Then WIT lifted its stake in Boddington from 11 to 23 per cent, effectively helping to block the bid.

WIT currently holds just over 23 per cent of Boddington, a stake critical to the outcome of any bid. WIT has a track record of backing the boards of those companies in which it has a stake should they be a takeover target.

WIT has substantial investments in about 14 regional brewers, including 9.5 per cent in Matthew Brown, the Blackburn-based brewer and neighbour of Boddington, which is currently a takeover target of Scottish & Newcastle Breweries. The trust is at pains not to be seen as simply a blocking mechanism - particularly as its activities are being scrutinised by the MMC inquiry. Some analysts in the City, and Mr Adam Page, chairman of Midsummer Leisure, have suggested a shift in attitude at WIT with the trust taking a more commercial approach to its investments.

Mr Richard Sowerby, investment manager at WIT, said yes-



Ewart Boddington, chairman, faces unwelcome bid

terday: "Our approach is consistent in supporting the boards of those companies in which we have an investment. We believe they know their businesses best." However, he added that the board has a duty to shareholders. There comes a time when everything has a price. But Midsummer has not even made an offer yet for Boddington and it is far too early to look at any merits or demerits of a bid.

Boddington, according to Midsummer, is a brewer which has lost its momentum with falling beer sales and low sales compared to the national average, as well as poor retailing skills. Such criticisms could be levelled at many of the regional brewers struggling to compete in a marketplace where, for example with lager, the major brewers have more marketing clout with nationally advertised brands.

Boddington's star rose in the

1970s with its real ale brand, Boddington, bitter. However, pride in its bitter led to complacency and in the early 1980s Boddington failed to seize upon the national trend towards larger consumption and retailing, a major growth area.

In the last couple of years the company, under Mr Ewart Boddington, has struggled to catch up with an extension of its larger portfolio, rehabilitation of its public houses and substantial investment in catering. All investments, according to Boddington, which will come to fruition in the near future.

However, in the shorter term, it disappointed the City last month when it announced taxable profits of £2.1m, including a 50p dividend. The company's profits for the six months to July 4, the result, 6.1 per cent ahead of the same period last year, was below City forecasts.

Midsummer, by contrast is an aggressive young company built up by Mr Adam Page and Mr Paul Reece who bought CAMRA (Real Ale) Investments in 1984 when it operated seven public houses and two off-licences. Since then it has grown rapidly through acquisitions and now operates 1,240 retail outlets. In the past it has looked at the possibility of acquiring a brewer but negotiations proved unsuccessful.

Currently it buys its beer from a variety of brewers, adopting a "free trade" approach - one that it would hope to partly introduce at Boddington with other brewers' beers competing for shelf space alongside the Boddington brands. Analysts point out this could lead to a rationalisation of Boddington's three breweries, a contentious issue in the north-west of England.

Midsummer's financial track record looks impressive. For the six months to March 31 Midsummer showed pre-tax profits ahead from £404,000 to £681,000 on turnover more than doubled at £5.96m against £2.95m.

However, there are fears that the company, currently absorbing Riley Leisure, Britain's leading sports club operator, may suffer from over-enthusiasm at a time when its share price is high. City analysts point out that the company's experience of the complex business of running a vertically integrated brewery.

Mr John Dunsmore of Wood Mackenzie, the stockbroker, said: "It is a highly ambitious plan which would have to secure the support of the board of Boddington in order to succeed. In addition, the offer consists of paper for paper and so the attractions for existing shareholders are not overwhelming."

Walter Lawrence surges to over £4m

Walter Lawrence yesterday reported a substantial increase from £1.96m to £4.19m in pre-tax profits for the six months to June 30 1987.

The contractor and house-building group's turnover rose 29 per cent from £77.98m to £83.72m.

The company also announced that it had agreed to sell its loss-making manufacturing business to Christy Hunt for a total consideration of £2.5m.

Mr B J Fritchard, the chairman, said in his interim statement that as a result of the full integration of Pecco Properties into the group, a better balance was being achieved between the results for the first and second half-year than was indicated.

Earnings per share improved to 6p (2.5p) and the interim dividend is increased by 25 per cent to 1.25p (1p). The board believed a higher proportion of the total dividend should be paid at the interim stage reflecting the improved profits reported.

The company is to sell its manufacturing business to Christy Hunt for £2.5m in cash. The divisions of Walter Lawrence Manufacturing include Hiram Wild, Nice Manufacturing, Walter Lawrence Tools, Palmer and Shelley, Wilkinson Tools and Sheffield Steel Products.

Walter Lawrence Manufacturing incurred an after tax loss of £127,000 (profit £159,000) in the year to December 31 1986.

Comment
The size of Walter Lawrence's increase in profits yesterday made the 1p gain in the share price to 151p look parsimonious, especially soon against the welcome disposal of the manufacturing arm to Christy Hunt. True, the timing of the Pecco acquisition has favoured the first half improvement in a manner which cannot be sustained for the rest of the year, but the continued buoyancy of the housing market and Lawrence's exposure to some of the choicest parts suggests forecasts of £1m pre-tax will not be wide of the mark. That puts the shares on a current year p/e multiple of less than 12 compared with an average of 14 for the sector. However, the gap is not so wide on a longer view: a more characteristic advance to £12.5m in 1988 combined with a further rise in the tax charge from 30 to 35 per cent would produce a gap of only half a point between Lawrence's p/e of 11.2 and the sector's 11.7.

Given the company's largely unexciting track record, the market may remain to be convinced that the gap is crying out to be bridged.

Confident BM lifts profits to over £5m

BM Group, the expanding construction equipment manufacturer and distributor, more than doubled both profits and turnover in the year to June 30 1987.

Pre-tax profits came to £5.09m (£2.31m) on turnover up from £26.49m to £78.85m. Earnings per 10p share rose 53 per cent to 16.4p (10.7p) and a final dividend of 1.4p (0.99p) is recommended, making 2.3p (1.65p) for the year.

The directors said the reported results did not fully reflect the group's potential. The company was in a strong trading position and prospects for the current year were very encouraging.

It was pointed out that over the past few years, the group had made substantial progress in terms of increased profits, earnings per share and the elimination of gearing. The company's divisions in general were consistently performing to the target it had set.

The board believed there was now the depth of management strength and organisation throughout the group required to embark on the next stage of growth. The company meant to continue its rapid rate of growth through the winning of new business, developing and extending relationships with existing clients and by establishing and acquiring new business in appropriate fields.

Caffyns jumps 29p as stake is uncovered

BY CLAY HARRIS

SHARES in Caffyns, the Sussex-based motor dealer, rose 29p to 603p yesterday after it uncovered a 5.7 per cent stake held by Mr Colin Giltrap, the New Zealand car distributor who had uncovered the stake this year for Frank & Gates, the Ford dealer based in Woodford, Essex.

Although Mr Giltrap was building his holding through four nominees, Mr Giltrap said he has no intention of bidding for the company, which has a market capitalisation of £19.5m.

He is, however, only one of three investors which Caffyns has discovered building stakes. Braithwaite Group, the engineering construction company, has a holding below the 5 per cent disclosure level but has told Caffyns that it does not plan to mount a bid. A third party is to meet the company later this week.

Really Useful £1.1m purchase

Really Useful Group, the company headed by composer Andrew Lloyd Webber, is buying for £1.1m in cash about 45 per cent of Interactive Information Systems, an electronic publishing company engaged in the design, production and sale of interactive video disc information and training courses.

It is also buying the company's preference share capital and £125,000 nominal of debenture stock for a further £250,000 in the year to last February. IIS earned pre-tax profits of £20,000

Alexandra Workwear up 29%

Alexandra Workwear, manufacturer and supplier of workwear, continued to make progress in the 28 weeks to August 15 1987, with pre-tax profits advancing 29 per cent from £1.94m to £2.5m.

After tax of £232,000 (£178,000) earnings per share came out at 4.73p compared with 3.69p and the interim dividend is raised from the equivalent of 0.92p to 1.1p.

The directors said sales and production continued to increase steadily. Sales in Holland, although relatively small, were over 50 per cent above the same period last year with the new Rotterdam shop beginning to contribute.

To meet increasing demand, the company has recently acquired the lease on an additional warehouse very close to the existing premises in Bristol. This will provide about 70 per cent extra warehousing space and will enable the company to continue its planned expansion programme.

Turnover in the first half rose from £17.25m to £21.67m and the trading profit increased from £2.2m to £2.78m. Interest payable amounted to £281,000 (£263,000).

comment

The City's view of Alexandra

Workwear is uniformly good; the company's ability to produce consistent growth in both profits and earnings per share has ensured that. Margins, which hardly increased in the first half, seem to have been pushed about as far as they can go. However, Alexandra is managing to maintain its share of a steadily rising market, as more and more companies opt for creating a corporate identity through clothing. The problem is that all the good news seems to be reflected in the share price; assuming a jump to £5m at the full year stage the prospective p/e is something over 25. That looks a bit pricey for the average pocket.

Dominion to sell 59% holding in Southwest

Dominion International, the financial services group, has put up for sale its 59 per cent stake in Southwest Resources, the USM-quoted energy group, and is holding talks which could lead to a full bid for Southwest.

Dominion was itself the subject of an abortive bid approach in the summer. Following yesterday's announcement, its shares closed at 125p, up 7p on the day, while Southwest closed at 36p, up 4p, giving Dominion's holding a value of about £11m.

The disposal will take Dominion out of the natural resources sector, which it entered 10 years

ago with the purchase of the stake in Southwest, which was then very much a mining company. Now, however, its main interests are in oil and gas exploration and production in the U.S.

Dominion's statement yesterday said that it had received several approaches concerning its Southwest interest in recent weeks.

Dominion has also been withdrawing over the past year or so from the property sector to concentrate on financial services. Mr Max Levinsohn, the chairman, said the property disposals were now about 75 per cent completed and most of the remainder were under negotiation.

Taken with the Southwest disposal, this would mean that by the end of the financial year Dominion would have realised about £20m from disposals. The money was being used initially to reduce its borrowings, which stood at around £20m net in the March-end balance sheet. The company would also be well placed to make acquisitions in complementary areas of financial services.

De La Rue

De La Rue, the printer, is buying Dicom, a Minneapolis-based manufacturer of computer-based design systems, for £12.7m (£7.7m). Dicom's systems are used in the advertising, public relations and graphic arts industries. It reported sales of £21m in 1986, its last full year.

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14 October 1987

Mystery suitor peels off his disguise

Peel Holdings, the Rochdale-based property company, yesterday admitted that it was the mysterious potential bidder for the Mersey Docks and Harbour Company whose "very preliminary approach" was revealed by the company on Monday, writes Ian Hamilton Fazez, Northern Correspondent.

Peel stressed, however, that the MDHC's value depended on whether the Government - the largest shareholder with 29.87 per cent - would want repayment of £107m in grants made to the MDHC to help it pay for dockers' redundancy schemes and modernisation. The MDHC has traded profitably for four years as a result of the changes the money helped bring about.

If the money had to be repaid Peel claimed yesterday that the result would be a net deficiency of £79m in shareholders' funds.

Peel, which spent £5.15m building a 14.66-per cent stake during the summer, is unlikely to proceed on that basis.

It stressed that its discussions so far had been "tentative" and concerned "potential areas of common interest."

Peel is chaired by Mr John Whitaker, the property developer who owns Highams, the private Lancashire textiles manufacturer, which was a takeover battle in February for the Manchester Ship Canal Company.

The MSCC operates the Mersey's other big profitable port besides Liverpool - the lower reaches of the canal between Ellesmere Port and Runcorn, where there is a large concentration of oil and chemicals industries.

Several hints passed yesterday before Peel's statement. It is understood that the MDHC's staff

ment caught Peel by surprise and that Peel then had discussions with the Takeover Panel to stress that it was not actually making a bid.

The MDHC would not elaborate yesterday on its own statement of Monday and has not said whether it is hostile to Peel.

However, the MDHC's unilateral, carefully worded revelation of an approach soon exposed Peel as the only real candidate because of its recent share buying.

Publicly it is unlikely to help further discussion or negotiation. Dismay at the disclosure was clear at Peel yesterday.

Mr Trevor Furlong, managing director of the MDHC, told the Financial Times last year the company was very confident about its prospects.

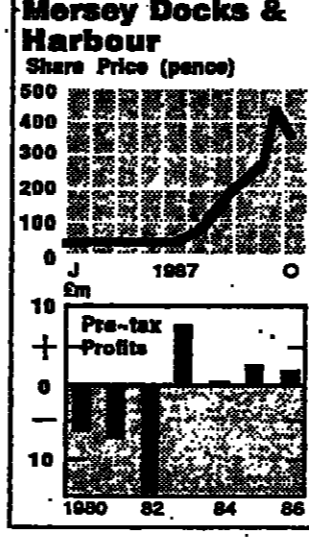
The transformation in attitudes and profitability achieved in recent years has even

scotched the notion that Liverpool is on the wrong side of Britain for the trade of the 1980s.

Mr Furlong believes that port operations are now about providing a reliable service. He believes good service brings traffic even if there is a slight disadvantage over location.

An example was given yesterday by Mr Eric Leatherbarrow, the MDHC's spokesman, who said that stockholding operators in Liverpool's freepoint had been attracted from more established continental freepoints.

Having turned the fortunes of the business round under the leadership of Mr Furlong and before that, his predecessor Mr James Fitzpatrick, it is unlikely that members of the MDHC management would feel happy about Peel taking over and reaping the benefits of their hard work in restructuring.



Cecil Gee cuts loss to £0.3m

Cecil Gee, the USM-quoted retailer and designer of menswear, has reduced pre-tax losses from £1.9m to £0.3m in the 26 weeks to August 1987.

The board said yesterday that the underlying trend of current trading indicates continued progress in the return to profitability.

Turnover (excluding VAT) was £8.73m (£8.57m). Loss per share was reduced to 3.9p compared with 21.7p for the corresponding period last year.

Operating expenses were £225m (£224m) for continued activities and all (£1.25m) for discontinued activities, the latter relating to the Gee 2 division.

The directors said that while the first half was traditionally the weaker trading period, turnover for the 26-week interim was ahead of that for last year, which was for 27 weeks.

They believed this momentum would continue through the second half. Plans were at an advanced stage for the opening of a further branch of Savoy Tailors Guild in the City of London. Cecil Gee had also recently opened a new branch in Birmingham which was trading satisfactorily. The company would continue to look for expansion activities.

R Martin Groome advances by 47%

Ronald Martin Groome, a fast expanding USM quoted wholesaler and office equipment supplier, yesterday reported a 65 per cent increase in turnover and a 47 per cent jump in pre-tax profits for the half year to end June.

Turnover was £10.7m (£8.5m) and pre-tax profits were £1.01m (£653,000). After net interest charges of £143,000 (£76,000) and tax of £360,000 (£254,000) earnings per share emerged 2p higher at 7.5p. The interim dividend is raised from 1.5p to 1.65p per 10p share.

The company is sustaining growth both organically and through acquisition. Following the acquisition of Typex, the company has now agreed to acquire Bob Boyd Stationers for £450,000 to be satisfied by the issue of 182,500 new ordinary shares, 112,500 of which are subject of a vendor placing. Boyd made profits of £80,137 on a turnover of £283,789 for the year ended March 31.

Mr Martin Abramson, chairman, said RMG's turnover was buoyant in all areas of operation, marketing activities were being intensified and further potential acquisitions were under investigation. In summary, Mr Abramson said prospects for the full year were most encouraging.

Jones 19% ahead despite engineering setback

Jones Group, which has interests in manufacturing, shipping, distribution and engineering, reported a 19 per cent increase in turnover to £11.85m (£10.8m) in the half year ended June 30 from a previous £11.56m. Group turnover rose from £22.48m to £24.41m.

Directors of the Dublin-based company are paying an increased interim dividend of 3p (2.5p). Earnings moved ahead from 8.7p to 14.75p per 10p share.

In the first half the manufacturing, shipping and distribution divisions increased earnings and the directors said that growth was set to continue.

The engineering contribution was lower and the market continued to be extremely weak, they added. The start of many projects had been delayed and others curtailed. They said that the domestic engineering companies must continue to adapt to that situation and prospects for growth were largely confined to the UK. For the full year the division would do well to generate profits at last year's level.

Overall, they expected group pre-tax profits for the year to show significant growth, and earnings, enhanced by the absence of a tax charge, to be much higher than last year.

The results for the first half do not reflect the group's July acquisition of Enviroquip, a US maker of water treatment plants, nor the operation of its new vessel.

Group trading profits rose by £100,000 to £2.35m in the six months and the pre-tax result was after depreciation of £542,000 (£550,000) and higher interest received of £103,000 (£52,000).

There was no tax (£284,000). Minorities took £44,000 (£54,000 credit).

Publishing bid unconditional

By Clay Harris

Publishing Holdings, the Third Market-listed financial publishing and marketing services group, yesterday declared unconditional its takeover bid for Investors Newsletters, which values the OTC-traded financial information company at £1.55m.

It now holds a total of 91.4 per cent. The high level of acceptance indicates that shareholders in Investors who bought shares under the Business Expansion Scheme have taken the offer even though they will lose their tax relief.

With Publishing shares at 64p, its one-for-two share offer values Investors shares at 32p, more than twice the 15p subscription price.

Before the clawback of tax relief the net cost per share ranged from 6p for a 60 per cent taxpayer to 10.5p for a basic-rate taxpayer. A cash alternative of 1p will remain open only until October 24.

Readicut in £7.5m deal

By DAVID WALLER

Readicut International, the specialist textiles group, is buying William Hoyland, a South York shire-based company which makes umbrella frames, for about £7.5m in cash and shares.

Mr Clive Shaw, the chairman of Readicut, said yesterday that Hoyland would be slotted into Readicut's light engineering activities, which accounted for 20 per cent of the group's turnover of £147m in the last financial year.

Hoyland specialises in making frames for golf, fishing and sun umbrellas, servicing primarily the leisure market at home and overseas. It manufactures and assembles the component parts of an umbrella but does not furnish the covering.

Hoyland made pre-tax profits of £702,000 on turnover of £2m in the year to September 1986. For the nine months ended June 26, pre-tax profits amounted to £553,000 on sales of £3.4m. Net assets at that date amounted to £2.8m.

Ian Hamilton Fazez examines Peel Holdings interest in the docks

Why a merger on the Mersey could make sense

THERE IS a quietness about the Port of Liverpool these days. Few ships sail up the channel between the Great Burbo Bank and the Waterloo sea-shore compared with 20 years ago, when a strike in the port might trap 80 or more in the docks and force banana boat captains to jettison their rotting cargoes in the Irish Sea.

But the quiet is deceptive. Shipping technology has ensured that one big, modern container vessel can do the work of seven old general cargo ones. They used to be in port for up to 10 days at a time. In Liverpool today the new ships sail in on one rising tide and go out again before the next has ebbed.

The crews who work the giant, turquoise-painted cranes that tower over the Royal Seaforth Dock ensure it. In 1985 they adopted new flexible methods that, overnight, raised their work rate from 12 boxes per crane hour to 22. A series of two-year pay agreements and joint problem-solving with management have transformed labour relations.

"Liverpool is now one of the most stable ports in Europe," Mr Eric Leatherbarrow, spokesman for the Mersey Docks and Harbour Company, said yesterday. "We have had five years strike-free and in 1986 we did not lose a single day through a dispute."

This helps answer one of the biggest questions in the City this week - why is the MDHC worth buying?

Because of productivity improvements brought about by new working practices and massive, Government-subsidised labour shedding, the MDHC has been profitable since 1983. It is doing well in bulk cargoes - containers, timber, grain and oil.

On Monday the company announced a tentative approach from a possible buyer. The news heralded a 20 per cent increase in its share price to 400p, which fell back on profit-taking yesterday morning to 415p.

Peel Holdings, the Rochdale-based property company, related itself yesterday as the interested party. It is already the second biggest shareholder, with 10 per cent. But Peel made it clear that the MDHC is virtually unsaleable if the Government, the biggest shareholder, wants repayment of the £107m in grants with which the MDHC paid for the modernisation and job-shedding that has led to profitability.

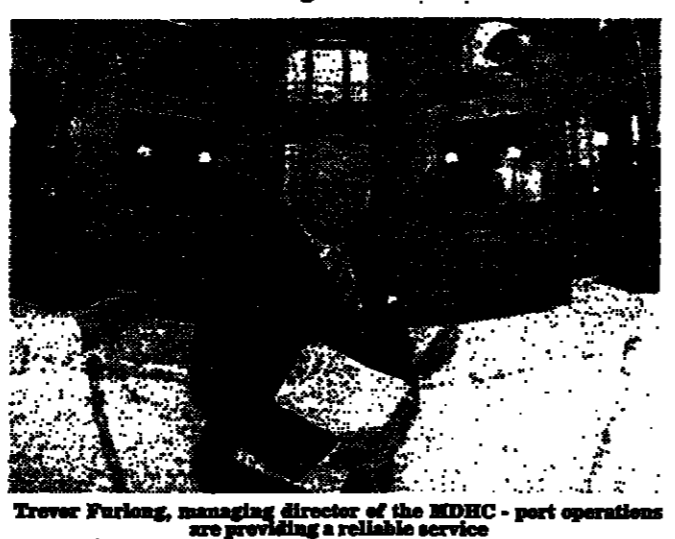
The Government owns 29.87 per cent of the MDHC, a situation that arose from the collapse of the old, shipowner-dominated Mersey Docks and Harbour Board in 1971 when it could not fulfil its obligations to investors. It had to be rescued through a government-led restructuring operation under Sir John Cuckney.

In 1980, however, the MDHC was on the brink of bankruptcy because of overmanning and falling revenues as recession hit trade. It turned to its biggest shareholder for the financial help that has enabled a 50 per cent reduction in the labour

force to 2,200, of whom 1,300 are dockers. The MDHC has a redundancy offer on now to get dockers' numbers down to under 1,000.

This, coupled with a successful freepoint that has so far brought in 500,000 tonnes of goods and £120m of extra trade, suggests continuing recovery, but why would a property company like Peel be interested in taking over?

The answer lies in two things - land and Peel's connections. Peel is a publicly quoted company - its annual general meeting is in Manchester today - chaired by Mr John Whitaker.



Trevor Furlong, managing director of the MDHC - port operations are providing a reliable service

Mr Whitaker owns Highams, the private Lancashire textiles company which in February won its nine-month struggle to take over the Manchester Ship Canal Company. Mr Robert Hough, a Manchester solicitor, is a director of Peel and chairman of the MSCC.

Although Manchester's docks are disused, the loss-making upper reaches of the canal are carried by the highly profitable lower reaches in the Mersey estuary between Ellesmere Port and Runcorn.

The area is dominated by ICI and Shell, although there is some container traffic besides chemicals, as well as tankers full of Guinness from Dublin which sail in for bottling near Runcorn.

Residues profitable port operations, the MSCC and MDHC also have another type of asset in common - developable land. For the MSCC it is along the banks of the canal and includes a greenfield site for a projected out-of-town shopping mall near the nexus of several motorways in Greater Manchester.

The MDHC has 60 acres of redundant dockland in the Liverpool city centre. In July, it announced a £300m scheme to develop this as a retail, leisure and office complex with Erill Holdings, a Nottingham property company.

Relations between Erill and the MDHC appear to have cooled since, casting doubts over the scheme.

Bringing the Mersey's two major ports - the ship canal and Liverpool docks - under common or at least closely connected ownership would actually make a great deal of sense and, probably, money, although the property side presents more of a risk because of planning controls and doubts about the size of the north-west's retail market.

However, everything now depends on the Government's view. The MDHC is, in effect, one-fifth nationalised. In an age of privatisation, Peel's position as a quoted company could make it look a very attractive suitor.

Kleinwort Benson's Mergers & Acquisitions Department. Leaders in corporate disposals.

<p>Williams Holdings PLC</p> <p>has acquired the</p> <p>Paint & DIY Products Division of Reed International PLC.</p> <p>We acted as financial adviser to the vendors</p> <p>Kleinwort Benson Limited</p> <p>July 1987</p>	<p>Pleasurama PLC</p> <p>has acquired the business of</p> <p>Aureon Entertainments from Whitbread and Company PLC</p> <p>We acted as financial adviser to the vendors</p> <p>Kleinwort Benson Limited</p> <p>September 1987</p>	<p>Premier Brands Limited</p> <p>has acquired the business of</p> <p>Ridgways from Tate & Lyle PLC</p> <p>We acted as financial adviser to the vendors</p> <p>Kleinwort Benson Limited</p> <p>September 1987</p>	<p>Warner-Lambert Company</p> <p>has acquired</p> <p>Henara plc</p> <p>We acted as financial adviser to the vendors</p> <p>Kleinwort Benson Limited</p> <p>January 1987</p>	<p>la Banque Indosuez</p> <p>has acquired</p> <p>l'Union Financiere de France S.A.</p> <p>We acted as financial adviser to the vendors</p> <p>Kleinwort Benson Limited</p> <p>July 1987</p>
<p>B.S.G. International plc</p> <p>has acquired</p> <p>Restmor Group PLC</p> <p>We acted as financial adviser to the vendors</p> <p>Kleinwort Benson Limited</p> <p>January 1987</p>	<p>Granada Group PLC</p> <p>has acquired</p> <p>Teletape Video Limited</p> <p>We acted as financial adviser to the vendors</p> <p>Kleinwort Benson Limited</p> <p>August 1987</p>	<p>EMAP plc</p> <p>has acquired</p> <p>Courier Press (Holdings) Ltd</p> <p>We acted as financial adviser to the vendors</p> <p>Kleinwort Benson Limited</p> <p>May 1987</p>	<p>Simon Engineering plc</p> <p>has acquired</p> <p>Colin G.R. Booth (Holdings) Limited</p> <p>We acted as financial adviser to the vendors</p> <p>Kleinwort Benson Limited</p> <p>January 1987</p>	<p>RMC Group p.Lc.</p> <p>has acquired the business of</p> <p>Oates Builders Merchants Limited</p> <p>We acted as financial adviser to the vendors</p> <p>Kleinwort Benson Limited</p> <p>July 1987</p>

Kleinwort Benson's Mergers & Acquisitions Department provides a specialist service to companies seeking to divest non-strategic businesses and to companies seeking mergers with commercial or industrial partners. Enquiries: Michael Martin 01-623 8000

FT UNIT TRUST INFORMATION SERVICE[illegible]

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OFFSHORE AND OVERSEAS

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MINES—Continued

1987		Stock	Price		Net	Gr
116	45	100% Pure Malt 20c	84			
117	45	100% Pure Malt 20c	84			
118	45	100% Pure Malt 20c	84			
119	45	100% Pure Malt 20c	84			
120	45	100% Pure Malt 20c	84			
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185	45	100% Pure Malt 20c	84			
186	45	100% Pure Malt 20c	84			
187	45	100% Pure Malt 20c	84			

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		Ties			
135	99	Walter Hume S&L	312	-1	400.5
145	90	Conover	195	-5	375
155	80	Support Service S&L 50	180	-10	360
165	70	Walter Hume S&L	165	-15	345
185	55	Walter Hume S&L	150	-20	330
195	45	Perkins S&L	135	-30	315
205	35	Support Service S&L	120	-35	300
210	30	Walter Hume S&L	105	-40	285
220	20	Support Service S&L	90	-45	270

		Miscellaneous			
240	0	Walter Hume S&L	75	-55	225
250	0	Conover	60	-60	210
260	0	Support Service S&L	45	-65	195
270	0	Walter Hume S&L	30	-70	180
280	0	Perkins S&L	15	-75	165
290	0	Support Service S&L	0	-80	150
300	0	Walter Hume S&L	0	-85	135
310	0	Support Service S&L	0	-90	120
320	0	Walter Hume S&L	0	-95	105
330	0	Perkins S&L	0	-100	90
340	0	Support Service S&L	0	-105	75
350	0	Walter Hume S&L	0	-110	60
360	0	Perkins S&L	0	-115	45
370	0	Support Service S&L	0	-120	30
380	0	Walter Hume S&L	0	-125	15
390	0	Perkins S&L	0	-130	0
400	0	Support Service S&L	0	-135	0
410	0	Walter Hume S&L	0	-140	0
420	0	Perkins S&L	0	-145	0
430	0	Support Service S&L	0	-150	0
440	0	Walter Hume S&L	0	-155	0
450	0	Perkins S&L	0	-160	0
460	0	Support Service S&L	0	-165	0
470	0	Walter Hume S&L	0	-170	0
480	0	Perkins S&L	0	-175	0
490	0	Support Service S&L	0	-180	0
500	0	Walter Hume S&L	0	-185	0
510	0	Perkins S&L	0	-190	0
520	0	Support Service S&L	0	-195	0
530	0	Walter Hume S&L	0	-200	0
540	0	Perkins S&L	0	-205	0
550	0	Support Service S&L	0	-210	0
560	0	Walter Hume S&L	0	-215	0
570	0	Perkins S&L	0	-220	0
580	0	Support Service S&L	0	-225	0
590	0	Walter Hume S&L	0	-230	0
600	0	Perkins S&L	0	-235	0
610	0	Support Service S&L	0	-240	0
620	0	Walter Hume S&L	0	-245	0
630	0	Perkins S&L	0	-250	0
640	0	Support Service S&L	0	-255	0
650	0	Walter Hume S&L	0	-260	0
660	0	Perkins S&L	0	-265	0
670	0	Support Service S&L	0	-270	0
680	0	Walter Hume S&L	0	-275	0
690	0	Perkins S&L	0	-280	0
700	0	Support Service S&L	0	-285	0
710	0	Walter Hume S&L	0	-290	0
720	0	Perkins S&L	0	-295	0
730	0	Support Service S&L	0	-300	0
740	0	Walter Hume S&L	0	-305	0
750	0	Perkins S&L	0	-310	0
760	0	Support Service S&L	0	-315	0
770	0	Walter Hume S&L	0	-320	0
780	0	Perkins S&L	0	-325	0
790	0	Support Service S&L	0	-330	0
800	0	Walter Hume S&L	0	-335	0
810	0	Perkins S&L	0	-340	0

2007		2006		2005		2004		2003		2002		2001		2000		1999		1998		1997		1996		1995		1994		1993		1992		1991		1990		1989		1988		1987		1986		1985		1984		1983		1982		1981		1980		1979		1978		1977		1976		1975		1974		1973		1972		1971		1970		1969		1968		1967		1966		1965		1964		1963		1962		1961		1960		1959		1958		1957		1956		1955		1954		1953		1952		1951		1950		1949		1948		1947		1946		1945		1944		1943		1942		1941		1940		1939		1938		1937		1936		1935		1934		1933		1932		1931		1930		1929		1928		1927		1926		1925		1924		1923		1922		1921		1920		1919		1918		1917		1916		1915		1914		1913		1912		1911		1910		1909		1908		1907		1906		1905		1904		1903		1902		1901		1900		1899		1898		1897		1896		1895		1894		1893		1892		1891		1890		1889		1888		1887		1886		1885		1884		1883		1882		1881		1880		1879		1878		1877		1876		1875		1874		1873		1872		1871		1870		1869		1868		1867		1866		1865		1864		1863		1862		1861		1860		1859		1858		1857		1856		1855		1854		1853		1852		1851		1850		1849		1848		1847		1846		1845		1844		1843		1842		1841		1840		1839		1838		1837		1836		1835		1834		1833		1832		1831		1830		1829		1828		1827		1826		1825		1824		1823		1822		1821		1820		1819		1818		1817		1816		1815		1814		1813		1812		1811		1810		1809		1808		1807		1806		1805		1804		1803		1802		1801		1800		1799		1798		1797		1796		1795		1794		1793		1792		1791		1790		1789		1788		1787		1786		1785		1784		1783		1782		1781		1780		1779		1778		1777		1776		1775		1774		1773		1772		1771		1770		1769		1768		1767		1766		1765		1764		1763		1762		1761		1760		1759		1758		1757		1756		1755		1754		1753		1752		1751		1750		1749		1748		1747		1746		1745		1744		1743		1742		1741		1740		1739		1738		1737		1736		1735		1734		1733		1732		1731		1730		1729		1728		1727		1726		1725		1724		1723		1722		1721		1720		1719		1718		1717		1716		1715		1714		1713		1712		1711		1710		1709		1708		1707		1706		1705		1704		1703		1702		1701		1700		1699		1698		1697		1696		1695		1694	
2007	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low																																																																																																																																																																																																																																																																																		

NOTES

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Swartz	50	TI	37
Alt. Averagene	50	T&S	37
Alt. Telecast	50	Tenn	37
Curran Ord	35	Trust EMI	35
Therion	32	Trust Houses	35
Warner Bros	32	Turner Musical	35
Warner Under	32	Unleash	32
Warhol	32	Victors	32
Watts	32	Welcome	32
W. of Accident	32	Property	32
W.C.	22	B&L Land	40
Waco	22	Land Securities	40
Ward Mvt	220	MEPC	40
W. W.	125	Peachy	40
Wardlaw	15		
WGN	15		
W. of Tel.	125	B&L Pyroclasm	32
W. of Gold	125	Brilliant	32
W.	125	Burned On	32
Wagner	30	Cherished	11
W.	30	Premier	11
W. and Sec	30	Steel	1.25

Post Office Savings Bank	48	Universal	11
City Bank	35	Western	26
City Bank	75	Windsor	
Clark & Spencer	22	Consolidated	125
Island Bank	44	London	26
City Bank	35	Rio Tinto	100

A selection of Options traded is given on the London Stock Exchange Report Page.

Equity sector firm in nervous trading while Gilts continue to move higher

Traditional Options

- First dealings Oct 5
- Last dealings Oct 16
- Last declarations Jan 7
- For Settlement Jan 18

For rate indications see end

London Share Service

Money was given for the call
Blacks in the following names:
Ossery Estates, TS
Perrault, C.B. Bailey, Tricent
Eagle Trust, Midland Bank A
ments, Dares Estate, De
Bewen, and the following
and Land. Whewy, C
ical Securities, Oliver Resourc
Abaco, Hyman, Singer as
Friedlander, Sound Diffus
and Newtek Capital.

Five were arranged in How
Holdings and SI Group, wh
double options were transac
in Polly Peck, Singer and Fri

in connection with management merger or takeover. Allotment price. * Unlisted securities market. † Official London listing. ‡ Including warrants outstanding. § Placing and offer for sale price. ¶ The Market, listed in 52 Units comprising 2 Ord Shares & 1 Warrant. (Exercisable at 30p into 1 Ord.) @ Warrants.

LAMEX COMPOSITE CLOSING PRICES

[illegible][illegible]

Call Lishua 887844 And ask Roberto Alves for details.

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